2019-21

Legislatively Adopted Budget

Detailed Analysis

Legislative Fiscal Office
October 2019

State of Oregon
Legislative Fiscal Office

900 Court St. NE, Rm. H-178
Salem, OR 97301
503-986-1828

Ken Rocco
Legislative Fiscal Officer

Paul Siebert
Deputy Legislative Fiscal Officer

October 31, 2019

To the Members of the Eightieth Oregon Legislative Assembly:

Following is the **2019-21 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 2019-21 biennium.

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

Ken Rocco
Legislative Fiscal Officer

Table of Contents

CONSUMER AND BUSINESS SERVICES PROGRAM AREA (continued)

EDUCATION

PROGRAM AREA

DEPARTMENT OF EDUCATION

Analyst: Wilson

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	571,910,203	825,289,988	1,013,230,556	899,275,407
Lottery Funds	1,434,923	651,225	692,870	692,870
Other Funds	129,285,726	482,142,998	611,937,136	1,517,507,009
Other Funds (NL)	139,400,800	120,364,721	120,364,721	120,364,721
Federal Funds	852,293,108	1,069,793,915	1,090,210,472	1,109,446,757
Federal Funds (NL)	402,949,244	388,007,727	407,115,946	407,115,946
Total Funds	**$2,097,274,004**	**$2,886,250,574**	**$3,243,551,701**	**$4,054,402,710**
Positions	556	584	548	639
FTE	523.14	550.43	535.78	618.34

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 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; implementing statewide standards for public schools; and making distributions from the State School Fund to districts that meet all legal requirements. 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 and the Youth Development Council to ODE. The Councils remain the policy boards for these programs.

ODE supports 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 2019-21 legislatively adopted budget of $900 million General Fund and Lottery Funds is $74 million, or 9%, greater than the 2017-19 legislatively approved budget. The total funds budget of $4.054 billion is 40.5% greater than the 2019-21 amount, primarily due to the almost 215%, or $1.035 billion, increase in Other Funds (limited) as the result of new spending from the new Fund for Student Success. More detail on these and other changes in the ODE budget are included in the following sections.

Operations and Educator Advancement Council

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	68,741,204	79,544,114	89,125,313	97,139,952
Other Funds	32,507,575	41,044,386	43,886,621	104,800,773
Other Funds (NL)	2,821,551	4,104,452	4,104,452	4,104,452
Federal Funds	69,943,229	82,130,678	81,666,552	91,950,178
Total Funds	**$174,013,559**	**$206,823,630**	**$218,782,938**	**$297,995,355**
Positions	470	502	466	611
FTE	443.37	474.66	460.01	577.28

Program Description

Department Operations includes the responsibilities and activities of the State Board and the Deputy Superintendent, staffing and administration of most ODE programs, and assistance to and review of local school 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 Director (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, human resources staff, Office of Indian Education, and communications.
- Office of Teaching, Learning and Assessment – Includes the primary K-12 related staff and is charged with grant administration and support for Career and Technical Education (CTE), school improvement, chronic absenteeism, federal Every Student Succeeds Act, and Measure 98 programs.
- Office of Research and Data Analysis – Includes staff for analyzing and coordinating research across the agency, staffs the Quality Education Commission, and is responsible for federal reporting requirements.
- Office of Student Services – Includes staff for administering, monitoring, and providing support for programs and grants relating to special education, Early Childhood Special Education, child nutrition, long-term care/hospital and youth corrections/juvenile detention, 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 and grants including Oregon Pre-Kindergarten (OPK), Early Head Start, Healthy Families Oregon, Relief Nurseries, Preschool Promise, and child care provider licensing, subsidies, and training. The Division has many positions distributed across the state inspecting and monitoring the child care system.
- Youth Development Division – Administers programs and grants that support youth that are at risk of, or have, dropped out of school and/or the workforce.
- Educator Advancement – Supports the new Educator Advancement Council which will provide grants to regional entities who are responsible for funding and supporting professional development and other support for educators in the early learning through K-12 systems. The amounts above include $35.8 million Other Funds for grants to these regional entities.
- Office of Finance and Information Technology – Provides fiscal and administrative services, such as accounting, budgeting, payroll, information systems support, 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.

With the passage of the Student Success Act in 2019 (HB 3427 and HB 5047), 72 positions were added. Many of those positions will be added to existing offices (e.g., Early Learning Division or Office of Finance and Information Technology). A new Office of Education Innovation and Improvement will be established for most of the new student success programs. As ODE sorts out these programs, some existing programs and staff of the Office of Teaching and Learning may become part of this new Office.

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 Educator Advancement Council, OSCIM program, African American Education Plan, and the English Language Learners initiative. New for 2019-21 are almost $21.9 million in Fund for Student Success resources (Other Funds) for staff and program supports.

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 associated with the Every Student Succeeds Act or ESSA (formerly No Child Left Behind).

Budget Environment

Over the past biennia, ODE staff resources have moved from being funded with almost 50% General Fund (a more flexible funding source) in 2007-09 to just over 38% in 2019-21. Federal Funds account for 37% of expenditures and are tied to specific programs and functions, such as oversight and monitoring, as required by federal law. Other Funds has grown with the adoption of HB 3427 and the new Fund for Student Success.

The agency has undergone a few reorganizations in the past few biennia. 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. Staff for individual Grant-in-Aid programs continue to change as 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. New for 2019-21 are 72 positions supporting the various Fund for Student Success initiatives and four positions for supporting the new Educator Advancement Council.

Funding to support the new Educator Advancement Council and its grants to regional entities comes from the former Network for Quality Teaching and Learning (NQTL) which sunset June 30, 2019. These repurposed NQTL funds, which formally supported programs such as Mentoring, School District Collaboration, dyslexia related training, Low Performing Schools grants, and School District Turnaround grants will be distributed to these regional entities through a formula. The formula is based on factors including number of licensed educators, teacher attrition rates, student and teacher racial diversity, and number of new teachers. It is expected that the estimated $35.8 million Other Funds for grants will be used for regional capacity and start-up grants ($4.1 million), distribution through the EAC formula ($29.4 million), transfer to the Higher Education Coordinating Commission for the Oregon Teachers Scholars program ($1 million), and technical assistance ($1 million). Potentially available in the second year of the biennium from the Fund for Student Success is $15 million for K-12 educators and $12.5 million for the early learning workforce. The Executive Branch is required to make recommendations for the use of these funds to the 2020 Legislature.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for Operations and the Educator Advancement Council of $97.1 million General Fund ($298 million total funds) reflects an increase of $17.6 million, or 22.1%, from the 2017-19 legislatively approved budget for General Fund, and a $91.2 million, or 44.1%, increase in total funds over the same period. The total funds growth is primarily due to three factors – the staffing and support for the programs funded through the new Fund for Student Success, significant increase in early learning staff, and the new Educator Advancement programs. Major increases in this budget area include:

- The Fund for Student Success (FSS) legislation (HB 3427 and its budget bill HR 5047) resulted in 72 new positions (51.95 FTE) for ODE including: (1) 11 Early Learning Division positions for administering the new or expanded programs; (2) four Youth Development Division positions to develop and administer the new Youth Re-engagement program; (3) 17 positions to administer a variety of K-12 new or expanded programs; (4) seven positions for assisting lower performing school districts through student success or coaching efforts; (5) 22 positions for the grant management and monitoring of the $472.7 million in Student Investment grants to school districts; (6) five positions for increasing district fiscal transparency; and (7) ten positions for support services and agency infrastructure. While a few of the positions will be filled early in the 2019-21 biennium, most are budgeted to be filled later in the first year since most of the programs are not funded with these resources until the second year of the biennium.

- A total of 42 positions (39.05 FTE) are established in the Early Learning Division at a cost of $310,844 General Fund and $8.9 million total funds. To strengthen the agency's efforts regarding licensing, compliance, investigations, and assistance to child care providers, 35 positions, most of which are inspection/compliance staff which will reduce the caseloads of existing staff. Another four positions are for administering grants, legislative and rule coordination, family engagement activities, and managing evaluations of Division programs. Finally, three limited duration positions are continued for the Baby Promise pilot project. These positions are funded with additional revenues available through the Child Care Development Block Grant. Many of the positions (23) were established as limited duration in 2017-19 and continued as permanent positions for 2019-21.

- Five positions (4.34 FTE) are established to staff the Educator Advancement Council and its programs. The program had been part of the Chief Education Office which sunset on June 30, 2019. Funding of $2.1 million Other Funds from a "carve-out" from the State School Fund will fund the positions. Similar to the funding for grants described above, this funding used to be part of the Network for Quality Teaching and Learning.

- Ten positions (9.92 FTE) to address the needs of the agency's business operations and infrastructure are established for the Office of Finance and Information Technology. These permanent positions will provide greater capacity in project management, information systems, procurement, financial services, and personnel (now part of the Office of the Director). During 2017-19, the Emergency Board approved five of these positions while a combination of temporary employees, retirees, and job rotations had performed the responsibilities of the other five positions. The $1.8 million Other Funds cost of these positions will be paid with federal indirect revenues authorized in an agreement between ODE and the federal government.

- Five positions ($1.6 million General Fund) are established to address three civil rights issues for ODE. One Civil Rights Appeals Coordinator (0.92 FTE) was created in the Director's Office to coordinate the increasing number of complaints, one positions (0.92 FTE) will provide technical assistance to meet the requirements of federal Title IX, and three positions (2.34 FTE) will address federal requirement around monitoring and professional development for CTE programs.

- Other budget actions for this area include: (1) six new permanent positions (4.22 FTE and $1.5 million General Fund) to address the new responsibilities under SB 155 relating to abuse investigations; (2) one position (0.5 FTE) for additional work under the Farm-to-School program; (3) resources for positions to coordinate vision screening and foster care transportation programs ($160,309 total funds); (4) $200,000 General Fund for the annual Civics Day at the Capitol for educator training; (5) $1.1 million Other Funds for the issuance costs of Article XI-P bonds; and (6) savings of $78,883 General Fund and $715,471 total funds for adjustments to debt service costs and statewide assessments common to all state agencies.

Oregon School for the Deaf

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,911,005	12,426,256	12,644,963	12,598,687
Other Funds	5,539,875	6,075,390	6,319,376	6,274,535
Federal Funds	293,216	259,078	247,179	246,647
Total Funds	**$17,744,096**	**$18,760,724**	**$19,211,518**	**$19,119,869**
Positions	84	82	82	82
FTE	77.77	75.77	75.77	76.02

Program Description

The Oregon School for the Deaf (OSD) is a residential/day program located in Salem that serves students who are hearing-impaired. OSD provides academic and career education, living skills development, athletics, and leadership training. At the beginning of the 2018-19 school year, OSD was serving 117 students with 62, or 53%, of the students in the day program and the remaining 55 students residing on the campus during the school year. As of October 2018, 41% of the students were in high school, 32% in middle school (grades 5 to 8), 15% in elementary school, and the remaining 11% 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

The OSD facilities are aging and have significant deferred maintenance needs. A report from five years ago identified deferred maintenance projects that needed 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 boiler system. 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. These funds have been totally used or committed. ODE has had to issue Article XI-Q bonds or relied on other revenues to continue the necessary work.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $12.6 million General Fund is $172,431, or 1.4%, greater than the 2017-19 legislatively approved budget. The total funds budget of $19.1 million is $359,145 more than the 2017-19 amount. Position related changes due to the changing nature of the responsibilities of facilities staff with installation of a new Heating and Ventilation and Cooling System (HVAC) result in savings of $89 General Fund, $37,772 Other Funds and an increase of 0.25 FTE. Net changes to statewide assessments common to all agency budgets saved $46,187 General Fund and $53,877 total funds.

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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	258,340,727	454,059,489	608,016,099	487,353,636
Other Funds	76,818,559	273,506,378	413,190,095	997,889,976
Federal Funds	669,120,834	851,958,120	881,883,384	846,883,384
Federal Funds (NL)	402,949,244	388,007,727	407,115,946	407,115,946
Total Funds	**$1,407,229,364**	**$2,310,205,524**	**$2,310,205,524**	**$2,739,242,942**
Positions	2			
FTE	2.00			

The positions and FTE in 2015-17 are for the Youth Corrections Education programs which were transitioned to be totally Grant-in-Aid program starting in 2017-19. Prior to that a decreasing number of state staff for these programs were used. The significant changes in the General Fund amounts are driven in part by the funding mix of the High School Success program (Ballot Measure 98). The significant increase in General Fund for the 2019-21 legislatively adopted budget is primarily due to the new Student Success Act funding available in the second year of the biennium.

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, but these are largely gone now. For example, the NQTL funding is now the Educator Advancement Council funding in the Operations budget unit of this agency. This budget unit also includes the funding of grants to school districts under Ballot Measure 98 which established the High School Success Grant program.

For 2019-21, the largest change in this budget area is the Student Success Act. There are over $751.5 million Other Funds of new resources for a variety of programs. The funding generally becomes available in the second year of the biennium and will roll-up to two-year funding for 2021-23. The largest programs funded are the Student Investment Grants ($472.7 million) which are distributed to school districts based on a formula and additional funding over 2017-19 levels for the High School Success grants (Ballot Measure 98). More detail on the new Student Success funding is found below.

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 such 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, English Language Learners program, and a portion of the nutrition or school lunch program. As noted above there is also over $751.5 million Other Funds in new resources generated from the new corporate activities tax scheduled for implementation in 2020.

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. With the amount provided in the legislatively adopted budget it is estimated that funding will meet roughly 81% of the recommended service level as determined by ODE staff. With the additional $37.5 million from the Fund for Student Success (FSS), the program should meet almost 100% of the calculated need.

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 and STEM lab schools were discontinued. 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 sunset at the end of 2019-21 to be replaced with the Educator Advancement Council system where specific programs will be developed through local networks of districts and a statewide council. This trend of program change continues as the new Student Success Act is implemented in 2019-21 and more new programs (e.g., Summer Learning programs and Student Investment grants) are started. This “churning” of programs challenges the agency and school districts since new rules and standards for the new programs must be developed and implemented and the older programs phased-out. Education advocates and districts have complained that there are too many programs and funding is spread too thin across districts limiting their effectiveness. The Budget Report for HB 5015 included a budget note requiring ODE to study the various Grant-in-Aid programs and to determine if further programs can be combined or eliminated and report back in the 2020 legislative session.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $2.739 billion total funds is $771.7 million, or 39.2%, greater than the 2017-19 legislatively approved budget, while the General Fund budget of $487.4 million is $33.3 million, or 7.38%, greater over the same period. A detailed listing by major program is outlined on the table found on the next page including a column under the 2019-21 legislatively approved budget for those programs funded from the new Fund for Student Success (FSS). Most of the General Fund growth is due to mandated caseload growth in the Early

Childhood Special Education program and inflation. Total funds growth is primarily due to the new resources from the Fund for Student Success (FSS).

The new source of funding from the FSS provides $751.5 million in Other Funds resources, generally for the second year of the biennium, for many new and existing programs including:

- $472.7 million Other Funds for the new formula-driven Student Investment grants available to all school districts. The formula is based on the general school revenue formula except at double the weighting for poverty. These grants must be used to increase instructional time, address students' health and safety needs, reduce class sizes or staff caseloads, and broaden curricular opportunities. Districts must have approved plans and metrics to spend grant funds. For districts that lag in student performance, $12 million is available for further technical services and supports.
- $24 million to Educational Service Districts (ESDs) to assist school districts prepare the required plans to receive the Student Investment grant.
- $2.8 million to assist districts in establishing early warning systems to identify students who are at-risk of falling behind in achievement and progress to graduation.
- $1.7 million for grants to ESDs for activities relating to school safety and prevention, youth suicide prevention, and student threat assessment training.
- $40.4 million for school nutrition programs to increase the number of students receiving free and reduced breakfasts and lunches.
- $1.2 million in one-time funding for equipment grants to schools to expand "breakfast after the bell" programs.
- $3 million for Summer Learning grants for Title I schools for increasing instructional time for students falling behind in their academic progress.
- $3.8 million for expanding grants under the existing African American Education program to increase academic achievement of this population.
- $3.2 million for grants to carry out the newly developed Native American or Alaskan Native Education Plan.
- $1 million to develop a similarly purposed educational plan for Latino students.
- $15 million for professional development for K-12 educators. The agency, after working with partners, is to return to the 2020 Legislature with a proposal on how to use this funding.
- $37.5 million for the existing Early Intervention and Early Childhood Special Education programs which brings the funding in line to meet close to 100% of the calculated need for services under the program.
- $133.2 million to bring funding for High School Success grants (Ballot Measure 98) to the 2019-21 current service level.

Grant-in-Aid funding formally through the NQTL totaling $36.2 million is repurposed to fund the programs under the new Educator Advancement Council which will be responsible for coordinating educator professional development through a network of regional entities. This means that programs formally funded through NQTL will not be funded directly but will depend on the priorities set by each regional network. The programs no longer directly funded include Mentoring, School District Collaboration, dyslexia related training, Trauma Informed Practices pilot grants, Low Performing Schools grants, and School District Turnaround grants.

	2017-19 Legislatively Approved Budget		2019-21 Current Service Level (CSL)		2019-21 Legislatively Adopted Budget		
	Millions of Dollars						
	GF	TF	GF	TF	GF	OF-FSS	TF
K-12 GRANT-IN-AID PROGRAMS							
Student Success Grant Programs							
Start Making A Reader Today (SMART)	0.26	0.26	0.27	0.27	0.27	-	0.27
Reach Out to Read Program	0.05	0.05	0.05	0.05	0.08	-	0.08
Supporting Accelerated Learning Opportunities	2.64	2.64	2.74	2.74	2.74	-	2.74
Regional Promise Grants	3.11	3.11	3.23	3.23	3.23	-	3.23
Physical Education Grants	0.95	4.36	0.99	4.53	1.41	-	4.31
Chronic Absenteeism Grants	6.24	6.24	6.47	6.47	6.47	-	6.47
Trauma Informed Grants (NQTL)	-	1.00	-	1.04	-	-	-
High School Success Grants (Measure 98)	170.00	340.00	303.19	606.38	169.99	133.20	473.18
Student Investment Program - Formula Grants	-	-	-	-	-	472.74	472.74
Student Investment Intensive Program: High Need	-	-	-	-	-	12.00	12.00
E-Rate	0.34	0.34	-	-	-	-	-
Interfund Transfers from General Fund	-					-	
Other Federal/Other Funds Grants	-	35.37	-	51.00	-	-	23.23
SUBTOTAL	**183.60**	**393.37**	**316.95**	**675.72**	**184.19**	**617.94**	**998.25**
District Capacity and Technical Assistance Grant Programs							
ESD Technical Assistance Support Grants	-	-	-	-	-	24.00	24.00
Healthy & Safe School Plan Grants	-	-	-	2.00	-	-	2.00
Statewide School Safety & Prevention Systems	-	-	-	-	-	1.73	1.73
Early Warning System Grants	-	-	-	-	-	1.75	1.75
Electronic Warning System Technical Assistance Grants	-	-	-	-	-	1.00	1.00
Foster Care & Extra Curricular Transportation Grants	0.25	0.75	-	0.52	-	-	2.00
Other District Capacity Grants	-	-	-	-	-	-	-
SUBTOTAL	**0.25**	**0.75**	**-**	**2.52**	**-**	**28.48**	**32.48**
STEM and CTE Related Programs							
STEM/CTE Regional Network Grants	4.67	4.67	4.84	4.84	4.84	-	4.84
CTE Revitalization Grants	10.33	10.33	10.73	10.73	7.02	-	7.02
STEM/CTE Career Pathway Fund	8.17	8.17	8.48	8.48	8.48	-	8.48
STEM/CTE Innovation Grants	4.43	4.43	4.60	4.60	4.60	-	4.60
Student Leadership Centers	0.70	0.70	0.73	0.73	0.73	-	0.73
Future Farmers of America Association (FAA)	-	-	-	-	1.43	-	1.43
Agricultural Summer Program Grants	-	-	-	-	0.60	-	0.60
For Inspiration & Recognition of Science & Tech (FIRST)	0.47	0.47	0.48	0.48	0.48	-	0.48
CTE Vocational Education Grant: Perkins Grant	-	32.19	-	33.33	-	-	33.33
SUBTOTAL	**28.77**	**60.96**	**29.86**	**63.19**	**28.18**	**-**	**61.52**
Nutritional Programs							
Federal Reimbursement Programs	-	388.01	-	407.12	-	-	407.12
After School Meal/Snack Program	0.48	0.48	0.50	0.50	0.50	-	0.50
Breakfast & Summer Lunch Programs	1.61	1.61	1.67	1.67	1.01	-	1.01
Breakfast Before the Bell Program	-	-	-	-	-	1.18	1.18
Hunger Free Schools Program Grants	-	-	-	-	-	40.43	40.43
Free Lunch Grant Program (SSF Transfer)	-	2.47	-	2.57	-	-	2.85
Farm to School - Transfer to Dept. of Agriculture	-	-	-	-	0.50	-	0.50
Farm to School Programs	4.50	4.50	4.67	4.67	14.16	-	14.16
SUBTOTAL	**6.59**	**397.07**	**6.84**	**416.53**	**16.17**	**41.61**	**467.75**
Educator Effectiveness & Professional Development							
Accelerated College Credit Instructor Program	0.26	0.26	0.27	0.27	0.27	-	0.54
Dyslexia Training Grants (NQTL)	-	1.90	-	1.97	-	-	-
Mentoring Grants (NQTL)	-	11.50	-	11.94	-	-	-
School Dist Collaboration Grant (NQTL)	-	13.50	-	14.01	-	-	-
Leadership Training Grants (NQTL)	-	2.50	-	2.60	-	-	-
Educator Professional Development Grants	-	-	-	-	-	15.00	15.00
Interfund Transfers from General Fund	-	-	-	-	-	-	-
Title IIA Teacher and Principal Grant	-	47.85	-	37.67	-	-	37.67
SUBTOTAL	**0.26**	**77.51**	**0.27**	**68.45**	**0.27**	**15.00**	**53.21**
Closing the Achievement Gap							
African American Education Plan Grants	6.00	6.00	6.23	6.23	6.23	3.81	10.04
Latino State Plan	-	-	-	-	-	1.00	1.00
Native American Education Plan Grants	-	-	-	-	-	3.19	3.19
Tribal Attendance Grants	1.55	1.55	1.61	1.61	1.61	-	1.61
Native American Curriculum Grants	1.80	1.80	-	-	1.80	-	1.80
English Language Learners Grants	-	10.43	-	10.83	-	-	10.00
School & Dist Turnaround Grants (NQTL)	-	2.00	-	2.08	-	-	-
Low Performing Schools Grants (NQTL)	-	2.50	-	2.60	-	-	-
Summer Learning Grants	-	-	-	-	-	3.00	3.00
Low Income: Title I, Part A	-	300.00	-	301.13	-	-	301.13
School Improvement Grants	-	10.00	-	20.38	-	-	20.38
Migrant Education (Title I, Part C) Grants	-	21.53	-	38.00	-	-	38.00
English Language Acquisition (Title III) Grants	-	22.77	-	13.38	-	-	13.38
Title IV-A Student Enrichment Grants (new 2018-19)	-	25.45	-	20.00	-	-	20.00
Title IV-B 21st Century Community Learning Centers	-	18.10	-	18.79	-	-	18.79
SUBTOTAL	**9.35**	**422.13**	**7.84**	**435.01**	**9.64**	**11.00**	**442.32**
Specialized Student Service Grant Programs							
Vision Screenings Reimbursements	1.00	1.92	1.00	3.00	-	-	1.86
Youth Corrections/Detention (YCEP/JDEP)	-	19.42	-	20.16	-	-	16.74
Transition Network Facilitator Grants (TNFs)	-	-	-	-	1.40	-	1.40
Early Intervention/Early Childhood Educ (EI/ECSE)	175.01	207.26	194.37	227.53	194.37	37.50	265.03
Regional Programs	27.68	60.40	28.73	62.69	28.73	-	62.69
Hospital Programs	1.37	7.05	1.42	6.85	1.37	-	7.57
Long Term Care and Treatment	18.94	44.81	19.66	47.08	16.72	-	41.74
Blind & Visually Impaired	1.00	6.04	1.04	2.68	-	-	1.60
Individuals with Disabilities Act (IDEA) Grants	-	261.60	-	271.53	3.31	-	274.85
Charter School Grants	-	7.00	-	7.27	-	-	7.27
Salem-Keizer Educ. Foundation (one-time for 2017-19)	0.25	0.25	-	-	-	-	-
Interfund Transfers from General Fund	-	-	-	-	3.00	-	3.00
Other Special Education Grants	-	-	-	-	-	-	-
SUBTOTAL	**225.25**	**615.74**	**246.22**	**648.79**	**248.90**	**37.50**	**683.74**
TOTAL K-12 GRANT-IN-AID PROGRAMS	**454.06**	**1,967.53**	**607.98**	**2,310.21**	**487.36**	**751.52**	**2,739.25**

Other Grant-in-Aid budget increases include: (1) $1.8 million General Fund to continue the development of the Native American curriculum for districts; (2) $423,387 General Fund to backfill lost Master Tobacco Settlement Agreement funds for physical education grants; (3) one-time $3.3 million General Fund for special education programs; (4) $952,500 General Fund for vision screening of students; (5) $10 million General Fund for the existing Farm-to-School program bringing total funding to approximately $15 million; and (6) $2 million General Fund for Future Farmers of America (FFA) grant resulting from HB 2444.

Reductions to Grant-in-Aid programs include: (1) $3.7 million General Fund for CTE Revitalization grants with instructions to prioritize rural districts and underserved populations for the remaining $7 million for these grants; (2) $35 million Federal Funds expenditure limitation no longer required; (3) $661,142 General Fund for the estimated resources no longer required for the Breakfast and Summer Lunch program; and (4) $3 million General Fund (one-time) freed up by using excess Other Funds balances in the Long Term Care and Treatment, Hospital education, and the Blind and Visually Impaired programs.

Early Learning Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	221,352,454	247,940,701	257,314,058	256,948,546
Other Funds	8,365,236	11,580,868	12,020,941	143,462,291
Federal Funds	112,556,223	134,696,039	125,634,857	169,913,048
Total Funds	**$342,273,913**	**$394,217,608**	**$394,969,856**	**$570,323,885**

Program Description

In 2013, the Legislature established the Early Learning Division within ODE 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. 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, as well as a network of Child Care Resource and Referral (CCR&Rs) agencies to provide training and support to child care providers. New programs since the establishment of the Division in ODE include a new "mixed delivery" preschool program (Preschool Promise), the Kindergarten Readiness and Innovation grants, and the Early Childhood Equity Fund.

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 (CCDBG) is the largest source of Federal Funds and is used for licensing, monitoring, and subsidies for child care. The largest share of these CCDBG funds is transferred to the Department of Human Services for the Employment Related Day Care (ERDC) program.

Budget Environment

The Oregon Pre-Kindergarten (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. With the expansion of the OPK program and the Preschool Promise program, up to 70% of this eligible population will be served by the end of the 2019-21 biennium.

The local system for early learning programs are 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 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.

Child Care Resource and Referral agencies (CCR&Rs) are another local network funded in part through grants from ELD. The 13 CCR&Rs deliver training and technical assistance to child care providers, assist providers in opening child care facilities, determine availability of child care providers, provide input on provider selection, and assist providers through the SPARK Quality Improvement Specialists. The service areas of CCR&Rs and Hubs don not always overlap making coordination more difficult. A budget note was included in HB 5015 instructing ELD to study the feasibility of consolidating them to better align regional entities. A report is required to be presented to the 2020 Legislature.

Major increases in the ELD's Grant-in-Aid programs were approved by the Emergency Board later in 2017-19 and permanently approved during the 2019 legislative session. These increases, as well as the ELD staff increases detailed in the Operations section above, are the result of an ongoing increase in the federal Child Care Development Block Grant, the major source of federal funding for these programs. Included in these increases is a pilot project for increasing quality day care slots for infant and toddlers through subsidies. This Baby Promise pilot program is operating in three areas of the state – Multnomah County, South Coast, and Central Oregon.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Early Learning Division's related Grant-in-Aid programs is $256.9 million General Fund and $570.3 million total funds. This represents increases of $9 million General Fund (3.6%) and $176.1 million total funds (44.7%) over the corresponding 2017-19 legislatively approved budget levels. The large increase in total funds reflects the $131.6 million increase in Other Funds from the Fund for Student Success investments and the $41.2 million increased funding through the Child Care Development Block Grant. The Oregon Pre-Kindergarten (OPK) program is by far the largest General Fund program with over 60.8% of the General Fund in this budget area allocated to the program. The program also is to receive an additional $44.4 million Student Success resources starting in the second year of the biennium. The following table displays the funding for the various Early Learning Grant-in-Aid programs.

	2017-19 Legislatively Approved Budget		2019-21 Current Service Level (CSL)		2019-21 Legislatively Adopted Budget		
	Millions of Dollars						
	GF	TF	GF	TF	GF	OF-FSS	TF
EARLY LEARNING DIVISION							
Oregon Prekindergarten	150.69	150.69	156.42	156.42	156.42	44.40	200.82
Early Head Start	1.65	1.65	1.71	1.71	1.71	22.34	24.05
Preschool Promise	35.73	35.73	37.09	37.09	37.09	30.80	67.88
Healthy Families	24.84	29.50	25.73	30.57	25.73	2.00	32.57
Office of Child Care	2.08	33.14	2.16	29.79	1.83	-	44.58
DHS - Employment Related Day Care (ERDC) & Inclusive Child Care	-	104.69	-	97.45	-	-	117.45
Baby Promise	-	1.01	-	2.69	-	-	8.75
Preschool Development Grant (Birth to 5)	-	-	-	-	-	-	3.10
Early Childhood Equity Fund	-	-	-	-	-	10.00	10.00
Coaching / Professional Development	-	-	-	-	-	14.40	14.40
Relief Nurseries	8.92	10.99	9.26	11.41	9.41	2.80	14.21
Kindergarten Partnerships Initiative	9.07	9.07	9.41	9.41	8.71	-	8.71
Early Learning HUBs	14.97	17.77	15.54	18.44	15.33	2.19	20.42
Race to the Top	-	-	-	-	-	-	-
Other Early Learning Grants	-	-	-	-	0.72	2.67	3.39
TOTAL EARLY LEARNING DIVISION	**247.94**	**394.22**	**257.31**	**394.97**	**256.95**	**131.59**	**570.33**

Overall, the Early Learning programs will experience significant growth in 2019-21. One issue that will need to be monitored is the ability of the industry and workforce to meet the demand for these services as many new families are able to access the early learning programs. By far, the largest increase of funding is the result of the passage of the Student Success Act; the new commercial activities tax provides $131.6 million Other Funds for program expansions and new programs, generally in the second year of the biennium. These programs include:

- $44.4 million to expand the number of full-time and part-time slots for the OPK program, converting existing part-time slots to full-time slots, increasing compensation for early learning educators, and for OPK-related transportation costs.
- $30.8 million to expand the Preschool Promise program which provides preschool for families above 100% of the federal poverty level (FPL) (OPK and federal Head Start are for up to 100% of FPL). This amount of funding is estimated to provide another 2,565 slots over the current 1,300 slots. A budget note instructs ELD to examine the potential and provide recommendations on whether a co-pay should be implemented.
- $22.3 million for the Early Head Start program to address the developmental needs of young children (up to age 3) through a variety of services including home visitation and center-based services. This should provide up to another 1,200 slots to the current 2,340 federal and state funded slots.
- $2.8 million to open new Relief Nurseries and satellite sites and expand the services at the current sites.
- $10 million for the new Early Learning Equity Fund for grants to organizations to address the early learning needs of traditionally underserved populations to improve kindergarten readiness.
- $2 million to expand services under the Healthy Families Oregon intensive home visiting program.
- $1 million for parenting education programs to increase skills and strategies for parenting, strengthening child/parent relationships, and promoting child development.
- $12.5 million for professional development and education opportunities for the early learning workforce. The ELD is to return to the 2020 Legislature with a plan on how best to use these funds.
- $5.8 million in the second year of the biennium for local coordination, assessing community early learning needs, professional learning and coaching for providers, monitoring the early learning system, and upgrading facilities. Another $1 million General Fund is available for the first year of the biennium for some of these activities.

Expanded federal funding under the Child Care Development Block Grant of over $41 million is incorporated into this budget including:

- $8.3 million for the continuation of the Baby Promise pilot program started in late 2017-19.

- $12.9 million to support child care providers generally through the Child Care Resource and Referral programs (CCR&Rs).
- $20 million for transfer to the Department of Human Services (DHS) for increases in the Employment Related Day Care (ERDC) program.

This additional federal funding generally represents roll-up costs of expansions made in late 2017-19.

Other program changes include $150,000 General Fund to backfill lost Title XX revenues designated for Relief Nurseries and a $3.1 million Federal Funds (one-time) increase for the recently awarded Preschool Development Grant Birth to Age 5 grant. General Fund program reductions include $327,979 to Focused Child Care, $700,000 to Kindergarten Readiness grants, and $500,000 to Early Learning Hub funding.

Youth Development Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,564,813	13,151,091	13,650,833	14,100,833
Other Funds	6,054,481	6,281,409	6,520,103	10,070,103
Federal Funds	379,606	750,000	778,500	453,500
Total Funds	**$17,998,900**	**$20,182,500**	**$20,949,436**	**$24,624,436**

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 had generally 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 is treated as Other Funds in the Division's budget. Federal Funds are used for the Juvenile Crime Prevention program and gang-related programs.

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 currently five general grant streams as part of this programing – Youth and Community grants, Youth and Innovation grants, Gang Prevention grants, Community Schools, and Juvenile Crime Prevention grants. A new Youth Re-Engagement grant program is established as part of the Student Success Act (described below).

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for the Youth Development Division's Grant-in-Aid programs is $14.1 million General Fund and $24.6 million total funds. This represents changes from 2017-19 funding levels of 7.2% and 22%, respectively. The increase in total funds is generally driven by the new Other Funds resources from the

Student Success Act of $4 million for the new Youth Re-Engagement grant program. Funds for the various programs in this budget unit are detailed in the following table.

	2017-19 Legislatively Approved Budget		2019-21 Current Service Level (CSL)		2019-21 Legislatively Adopted Budget		
	Millions of Dollars						
	GF	TF	GF	TF	GF	OF-FSS	TF
YOUTH DEVELOPMENT DIVISION							
Juvenile Crime Prevention	5.88	6.63	6.11	6.88	6.11	-	6.56
Gang Prevention & Intervention Grants	0.75	0.75	0.78	0.78	0.78	-	4.78
Youth & Community	3.25	9.47	3.37	9.83	3.82	-	9.83
Youth & Innovation	3.17	3.17	3.29	3.29	3.29	-	3.29
Youth Re-Engagement Grants	-	-	-	-	-	4.00	4.00
Community Schools	0.10	0.16	0.10	0.17	0.10	-	0.17
TOTAL YOUTH DEVELOPMENT DIVISION	**13.15**	**20.18**	**13.65**	**20.95**	**14.10**	**4.00**	**28.62**

Changes in this budget unit include:

- The establishment of a new $4 million Other Funds Youth Re-Engagement program to provide grants starting in the second year of the biennium for programs that are designed to reconnect youth aged 14 to 21 who are dropouts or not making sufficient progress toward a high school diploma. Grants are to be made to school districts and other eligible entities for academic instruction, career counseling, and workforce readiness services. Funding for this program is from the Fund for Student Success.
- General Fund ($450,000) is used to backfill the loss of Title XX funding for youth development related grants.
- As some federal grants have expired or been reduced over the past few biennia, ODE estimated that it had $325,000 in excess Federal Funds expenditure limitation so it was reduced in this budget.

Debt Service and Bonding

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund		18,168,337	32,479,290	31,133,753
Lottery Funds	1,434,923	651,225	692,870	692,870
Other Funds	--	143,654,567	130,000,000	255,009,331
Total Funds	**$1,434,923**	**$162,474,129**	**$163,172,160**	**$286,835,954**

Program Description

This budget area includes debt service and expenditure limitation related to bonds issued by the state on behalf of the agency and school districts. Almost all the General Fund represents the debt service required to pay off the Article XI-P general obligation bonds issued through the Oregon School Capital Improvement Matching program (OSCIM). 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. These bond proceeds are under a two-year limitation so new expenditure limitation must be approved for any unspent proceeds from a previous biennium. The $130 million included in the 2019-21 current service level represents the estimated limitation required to spend the proceeds issued in previous biennia. In 2015-17, $125 million in XI-P bonds was issued and $100 million was 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. In addition, $4.3

million in XI-Q bonds was approved for 2017-19 for deferred maintenance and improvements at the Oregon School for the Deaf. A small portion of the 2019-21 General Fund is for paying off these XI-Q bonds.

The Lottery Funds is the debt service 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. These bonds Should be fully paid off in 2019-21.

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

Legislatively Adopted Budget
The 2019-21 legislatively adopted General Fund budget of $31.1 million represents the payments required for the Article XI-P bonds for the OSCIM program for Article XI-Q bonds for the School for the Deaf. Lottery Funds expenditure limitation is for repaying Lottery Bonds approved 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 $255 million includes the $125 million for newly approved XI-P bonds proceeds under the OSCIM program and the estimated $130 million in grants paid out to school districts from bond proceeds approved in 2015-17 and 2017-19. The remaining $9,331 Other Funds represents earnings available from bond-related accounts that can be used for debt service.

Common School Fund Distributions

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	136,579,249	116,260,269	116,260,269	$116,260,269
Total Funds	**$136,579,249**	**$116,260,269**	**$116,260,269**	**$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 basis of 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 2019-21 legislatively adopted budget of $116.3 million Other Funds Nonlimited is based on a 4% distribution. There is no assumption that the distribution will be at a higher rate at this time; the amount may be adjusted later in the biennium as actual amounts are distributed.

State School Fund

Analyst: Wilson

Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	6,904,804,561	7,582,892,067	8,150,549,940	7,718,687,417
Lottery Funds	447,703,907	535,719,907	535,719,907	530,146,857
Other Funds	1,175,156	85,248,393	85,248,393	751,165,726
Total Funds	**$7,353,683,624**	**$8,203,860,367**	**$8,771,518,240**	**$9,000,000,000**

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 197 school districts (95.5% of the net distribution) and 19 ESDs (4.5% of net distribution). There is also pass-through to charter schools in this process. 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 statutorily 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 based on these factors. 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 the relative costs compared with other districts. If a 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 is projected to distribute another approximately $2.7 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. This amount includes the new funding available through the Student Success Act.

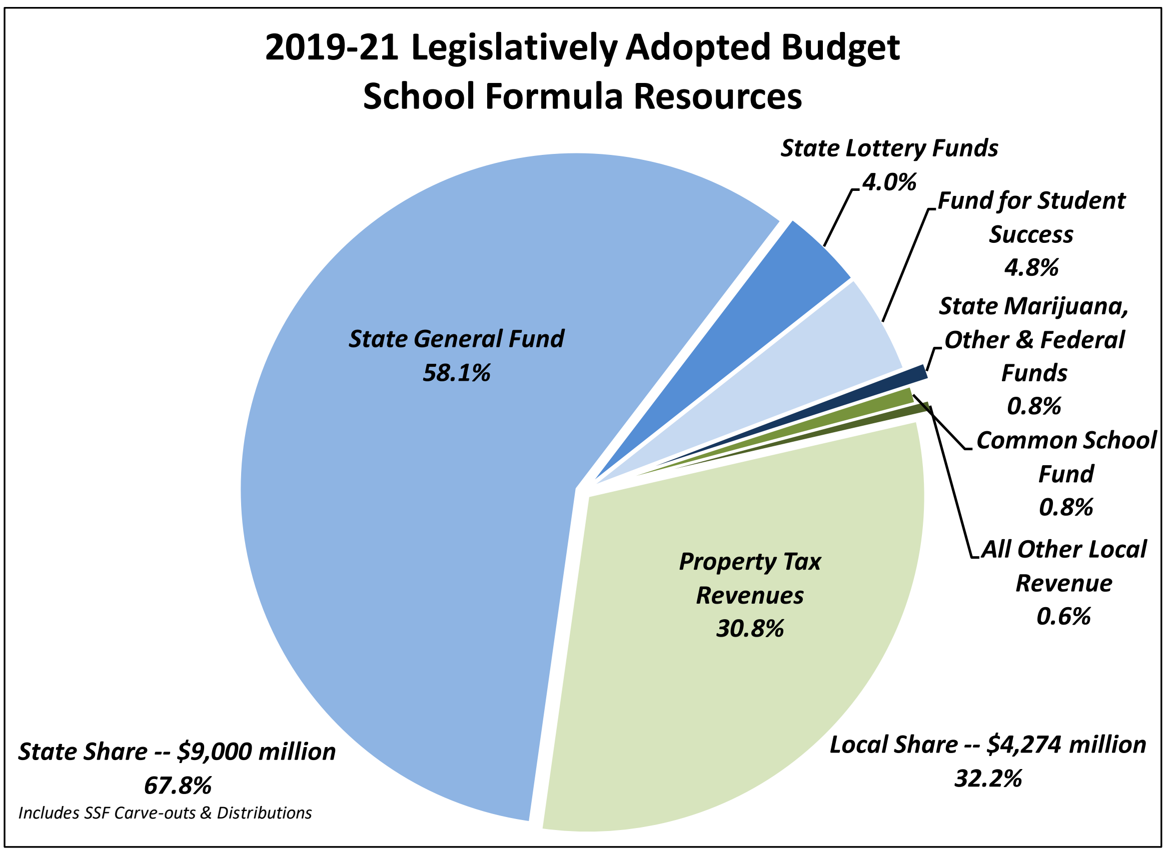
Revenue Sources and Relationships

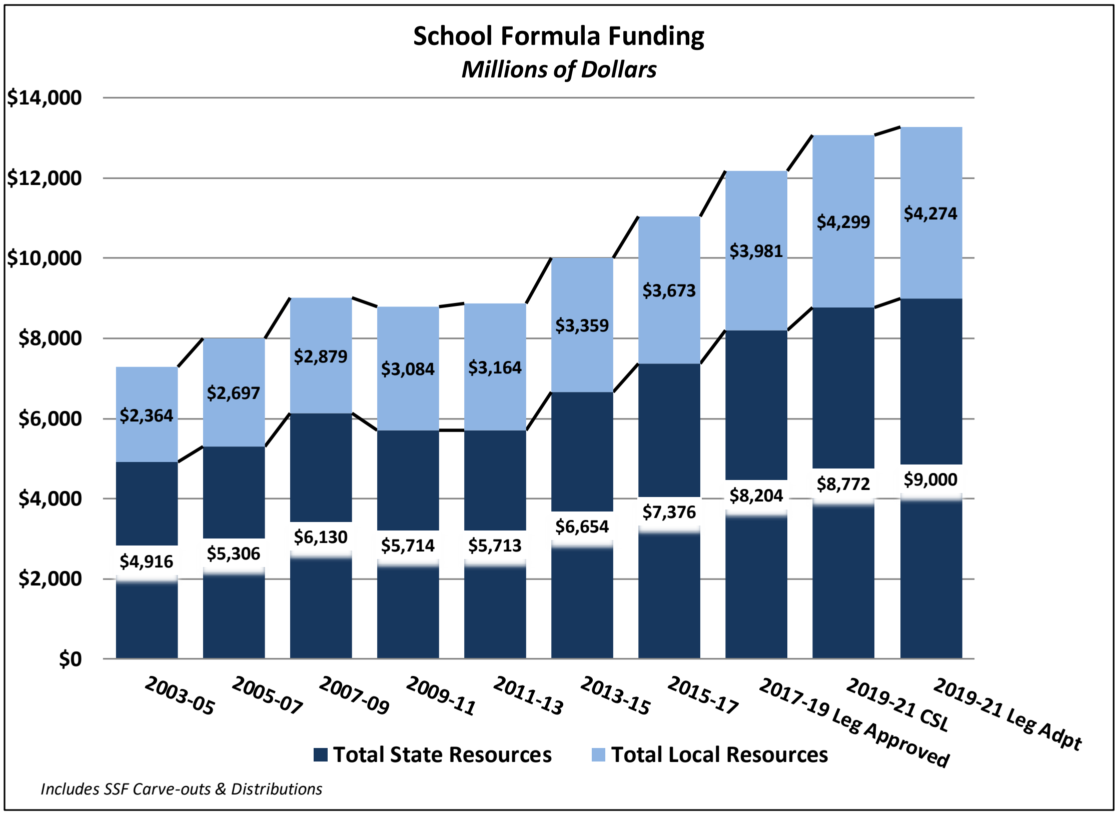
In 1990, voters approved Ballot Measure 5 that altered the state-local finance structure. Measure 5 phased in property tax limits that substantially reduced local property taxes for schools, and the state increased its share of funding and passed a new school equalization formula. By the end of the five-year tax limit phase-in, the state primarily funded the school system and significantly limited local control over school funding levels. For 2019-21, the estimated SSF or state share of the distribution amount through the equalization formula for school districts and ESDs represents 67.8% with various local revenues representing the remaining 32.2%. Prior to Measure 5, the state share was more in the 30% range.

The major fund sources for the SSF budget is General Fund and Lottery Funds. For 2019-21, the Other Funds portion has become more important. It not only reflects receipts from the state timber tax, donations of kicker rebates, expenditure limitation for Local Option Equalization grants, and Marijuana Tax resources as it had in 2017-19, but the new Fund for Student Success also contributes $643 million to the total SSF. The largest share of this amount, or $423 million, represents the amount of General Fund resources lost due to income tax rate reductions and other tax changes included in the Student Success Act (HB 3427). The remaining amounts represent a $20 million annual increase for the High Cost Disability account (starting in the second year of the biennium) and a one-time $200 million contribution to the SSF. Marijuana related revenues increase by approximately $22 million for 2019-21 to $103.8 million. The following chart demonstrates the various state and local resources that are part of the calculation of the formula distribution for 2019-21 which totals $13.27 billion. The overall state share increases from 67.3% in 2017-19 to 67.8% for 2019-21.

In a biennium when 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 recently.

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 demonstrates the breakdown between the distribution formula revenue sources for 2019-21 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. During the 2017-19 biennium, the estimated growth of the total weighted Average Daily Membership (ADM) was estimated at 0.28% per year between 2015-16 and 2019-20. Overall, weighted ADM or ADMw is estimated at approximately 705,000 for the 2017-18 school year, but that could change by the end of the current 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: (1) 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 (2) best practices for meeting the quality goals, the costs of implementing best practices, and expected student performance under best practices. The QEC's Quality Education Model (QEM) estimates the total resources needed to fully pay for Oregon's educational goals including resources from the State School Fund, local revenues, state and federal grant-in-aid payments and other resources. Based on the QEM, the 2017-19 legislatively adopted budget's SSF amount of $8.2 billon was $1.77 billion short of funding Oregon's educational goals. For the 2019-21 biennium, this gap should fall as the new Student Success Act resources are factored into the calculation. Early estimates show the gap falling to just under $900 million for 2019-21, but the effect of the new Student Success Act resources will not take place until the second year of the biennium. The gap is projected to decrease for 2021-23 as the full impact of the Student Success Act is experienced.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the SSF is $9 billion total funds ($7.72 billion General Fund, $530.1 million Lottery Funds, and $751.2 million Other Funds) which makes up the state portion of the amount distributed to school districts and ESDs through the school funding formula. This 2019-21 SSF budget represents a $796.1 million (9.7%) increase in total funds over the 2017-19 budgeted amount. An estimated $4 million of the

SSF is assumed to be the amount needed to cover payments under the Local Option Equalization Grants. The estimated distribution of SSF resources combined with local revenues is outlined in the following table. Some of the items in this table will change during the biennium as more up-to-date information is available.

There were some changes to the school funding formula during the 2019 legislative session including: (1) changing the destination for the former carve-out for a funding stream for the Network on Quality Teaching and Learning to the new Educator Advancement Council ($39 million); (2) continuing and increasing the carve-outs for school nutrition programs ($2.9 million); and (3) further reducing the amount designated for School Facilities grants from $9 million to $7 million per biennium, and allocating the $2 million difference to the Healthy School Facilities Fund for grants for environmental testing. The amount to be distributed to the High Cost Disability Account is increased by $20 million annually starting in the second year of the biennium and is funded with resources transferred from the Fund for Student Success.

2019-21 State School Fund & Local Revenues Distribution

Millions of Dollars

State School Fund -- Includes General Fund, Lottery Funds, state timber tax, dedicated Marijuana tax, and transfers from t			**9,000.0**
Less Selected Set-Asides & Carve-outs & Reserve Accounts			**(107.5)**
Small School Supplement - 327.008(10)		(5.0)	
Business Audits - 327.008(10)		-	
Talented & Gifted - 327.008(13)		(0.4)	
Speech Pathologist - 327.008(13)		(0.2)	
Virtual School District - 327.008		(1.6)	
Long-term Treatment & OSD - 343.243		(23.0)	
Educator Advancement Council		(6.0)	
Local Option Equalization - 327.339 -- Estimate and may change during biennium		(4.0)	
Pediatric Nursing Facilities		(4.0)	
English Language Learners (ELL)		(12.5)	
Nutrition Related		(2.9)	
Office of Educational Facilities (includes Healthy and Safe Schools)		(8.0)	
Reserve Account (distributed to districts later in biennium)		(40.0)	
Estimated Local Formula Revenues			**4,274.3**
Net Property Taxes		4,089.8	
Common School Fund		111.4	
County School Fund		21.9	
State Managed Timber		51.2	
All Other		-	
Total Amount to be Distributed to School Districts and ESDs			**13,166.8**
School District Share (95.50%)		12,546.4	
Education Service Districts (4.5%)		620.4	
School District Distribution			
Total Amount Available	12,546.4		
Less Current High Cost Disability Grants	(70.0)		
Less Additional High Cost Disability from the Fund for Student Succe	(20.0)		
Less Facilities Grants	(7.0)		
Less School District Share of Educator Advancement Council	(17.0)	*Grows at rate equal to SSF growth from 17-19*	
Formula Revenue for Distribution to School Districts		**12,432.4**	
Education Service District Distribution			
Total Amount Available	620.4		
Less 10th Grade Assessment	(1.0)		
Less ESD share of Educator Advancement Council	(17.0)	*Grows at rate equal to SSF growth from 17-19*	
Formula Revenue for Distribution to ESDs		**602.5**	

HIGHER EDUCATION COORDINATING COMMISSION

Analyst: Wilson

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,787,610,400	1,954,764,881	2,096,242,800	2,184,067,916
Lottery Funds	55,540,827	96,567,082	128,479,627	144,428,093
Other Funds	690,562,075	584,613,058	60,305,617	193,536,425
Other Funds (NL)	697,430,625	244,022,758	211,422,020	127,560,060
Federal Funds	81,642,393	8118,191,072	127,286,360	211,422,020
Federal Funds (NL)	3,114,849	23,567,281	24,286,877	24,286,877
Total Funds	**$3,315,901,169**	**$3,021,726,132**	**$2,648,023,301**	**$2,885,301,391**
Positions	142	134	132	148
FTE	123.63	120.33	122.07	137.37

Includes OHSU resources in the Department of Administrative Services budget for 2015-17 and 2017-19.

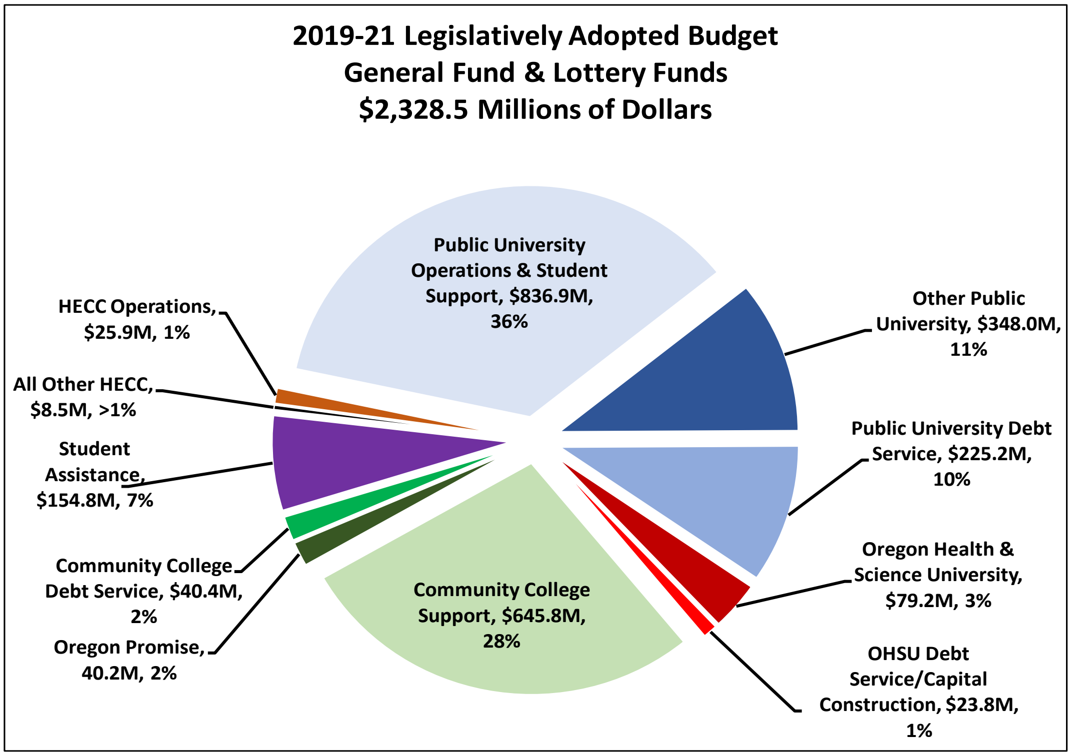
Overview

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 post-secondary education based on the strategic plan; and (4) approve and authorize degrees for the public universities and programs at community colleges.

The passage of SB 270 and HB 3120 in 2013 added several duties to HECC's portfolio. The Commission took over responsibilities of the State Board of Education relating to the community college system, as well as assumed the responsibilities of the Oregon Student Access Commission (OSAC) which was eliminated. State staff of the Community College and Workforce Development Department and the staff of OSAC also were transferred to HECC. Three other programs, the Office of Degree Authorization (ODA), the Private Career School (PCS) program, and the Oregon Volunteers Commission, 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 funds for these programs generally are pass-through (e.g., community colleges and public universities), the Commission has a role in determining how the funding is distributed between the individual institutions. This is not the case for OHSU. Below is a table that divides the 2019-21 legislatively adopted budget into its five major components and a chart showing the distribution of General Fund and Lottery Funds resources across the major HECC spending areas.

	Millions of Dollars						
	General Fund	**Lottery Funds**	**Other Funds**	**Federal Funds**	**Other Funds NL**	**Federal Funds NL**	**Total Funds**
HECC Staff, Operations and Other Programs	39.6	-	37.3	127.6	0.2	19.7	224.4
State Support to Public Universities	1,217.0	93.1	82.6	-	203.9	4.6	1,601.2
State Support to Community Colleges	715.0	11.3	28.0	-	-	-	754.3
State Support to the Oregon Health Sciences University	103.0	-	30.9	-	7.3	-	141.2
Oregon Opportunity Grant Program	109.5	40.0	14.7	-	-	-	164.2
Totals	**2,184.1**	**144.4**	**193.5**	**127.6**	**211.4**	**24.3**	**2,885.3**



Legislatively Adopted Budget

The 2019-21 combined General Fund and Lottery Funds legislatively adopted budget of $2.328 billion is $277 million, or 13.5%, greater than the 2017-19 legislatively approved budget. The growth is due to several factors including a 13.6% increase in the general support for public universities, 25.6% increase in the amount the state pays in debt service on behalf of public universities, 15.4% growth in the three Statewide Pubic Service programs, roll-up costs for the Outdoor School program authorized by Ballot Measure 99 ($21.3 million Lottery Funds or 88.8%), and a 12.5% increase in the Community College Support Fund. Comparing total funds changes across biennia is more difficult given the effect that changes in capital construction expenditure limitation has on the budget. Detailed information on the budget is included in the following information on the various budget units of the overall HECC budget.

Staffing, Operations, and Other Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	38,038,197	35,163,956	39,235,606	39,587,633
Other Funds	22,674,703	35,976,039	29,218,892	37,337,696
Other Funds (NL)	1,144,104	206,000	206,000	206,000
Federal Funds	81,642,393	118,191,072	127,286,360	127,560,060
Federal Funds (NL)	2,489,208	18,968,831	19,689,647	19,689,647
Total Funds	**$145,988,605**	**$208,505,898**	**$215,636,505**	**$224,381,036**
Positions	142	134	132	148
FTE	1213.63	120.33	122.07	137.37

Program Description

This budget unit includes all the staff and operating costs of HECC, as well as 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, Central Operations, and Research and Data – Includes the agency's leadership staff, financial and other administrative staff, and research staff.
- The Office of Academic Policy and Licensure – 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. In addition, this Office licenses career schools, approves their programs, and investigates complaints regarding these schools.
- Office of University Coordination – Provides oversight of the public universities and is responsible for distribution and monitoring of operating and capital spending of the seven public universities.
- Office of Community Colleges – Manages state responsibilities related to community colleges and provides leadership in the development and delivery of college transfer and professional/technical course work, adult literacy education, and General Education Development (GED) testing.
- Office of Workforce Investments – Primarily includes resources that are paid to other entities under the Workforce Investment Act (WIA). The WIA Title IB program provides services to dislocated workers, youth employment training programs, and 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 Legislature is included in this budget ($8.5 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. This Office also includes the Oregon Youth Conservation Corps which provides education, training, and employment opportunities to disadvantaged and at-risk youth ages 14 to 25 and the Oregon Volunteers program.
- Office of Student Access and Completion (OSAC) – 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 not including the Oregon Opportunity Grant and the Oregon Promise program. The Access to Student Assistance Programs in Reach of Everyone (ASPIRE) is included in this area, a program 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. Also included in this Office is the Oregon National Guard State Tuition program.

The 2019-21 legislatively adopted budgets for these various programs are detailed as follows:

HECC Staffing, Operations and Other Programs

Millions of Dollars

	2019-21 Leg Adopted Budget							
	General Fund	Other Funds	Federal Funds	Other Funds NL	Federal Funds-NL	Total	Positions	FTE
Director's Office	2.8	0.8	0.8			4.4	12	11.64
Central Operations	5.8	3.9	4.6			14.3	35	33.16
Research and Data	2.7	4.3	0.4			7.4	20	17.38
Office of Community College & Workforces Development	4.9	2.6	2.1			9.6	15	14.70
University Coordination	1.5					1.5	5	5.00
Academic Policy & Licensure (formally Degree Authorization/	1.2	2.8		0.2		4.3	15	12.49
Formally Office of Degree Authorization/Private Career School								
Office of Student Access and Completion	3.6	2.3	-			5.9	24	21.00
ASPIRE Grants	0.6	0.1				0.6		
Miscellaneous Student Assistance	4.7	15.2	-	-	-	19.9		
Workforce Development Staff	3.3	0.9	15.3		-	19.4	22	22.00
Workforce Investments	8.5	2.6	103.2	-	19.7	133.9		
Youth Conservation Corp		1.9	1.2			3.1		

Revenue Sources and Relationships
The Office of Degree Authorization and the Private Career School Program rely on fees paid by 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.

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 classified as nonlimited in the state budget.

Budget Environment
There are roughly 180 schools regulated by the Private Career Schools (PCS) program (e.g., cosmetology, truck driving, and real estate related schools). HB 5025 (2019) provided authorization to HECC to continue 30% increases in fees in both 2017 and 2019 charged to PCS regulated schools. These increases were required as General Fund support for PCS regulation was discontinued. There are 22 degree-granting schools regulated by the Office of Degree Authorization (ODA). The number of schools regulated by both programs depend, in part, on the economy; as the unemployment rate decreases so does the enrollment in many of these programs. Federal oversight of the schools overseen by ODA has varied over the past few years. In the past, the burden of student debt and the ability of students to find gainful employment was an important issue for the federal government which had an impact on these schools and programs. Nine of the 22 degree-granting schools overseen by ODA are eligible to receive U.S. Department of Education financial aid payments.

The information management system for OSAC grant programs, including the Oregon Opportunity Grant program, 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 biennia. The agency is indicating that a business case will be completed in time to possibly request system development funding in the 2020 or 2021 legislative sessions.

The ASPIRE program had resources for 2017-19 to operate an average of approximately 150 sites. For the 2019-21 biennium, the estimated number of sites based on available funding should support 152 or 153 sites (e.g., 129 high schools and 24 middle schools). 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. The agency estimates that the program could expand with additional funding, specifically in more rural areas of the state. Federal funding for the FAFSA Plus program *(*Free Application for Federal Student Aid) is no longer available, but the agency attempts to maintain relationships with as many sites as possible since the program was very successful in increasing the number of Oregon students filling out the FAFSA.

The 2018 Legislature passed HB 4035 which established the Oregon National Guard State Tuition Assistance program (ONGSTA). A total of $2.5 million General Fund was appropriated for the second year of the 2017-19 biennium. The program provides funding for tuition for up to 90 credits at community colleges and 180 credits at public universities in Oregon. The program is for active members of the Oregon National Guard. This is a last dollar program so recipients must have exhausted all other state and federal assistance (other than the GI bill). Initial participation in the program was small, with only 81 student receiving assistance in the Fall term of 2018. Further marketing and recruitment efforts by the various Guard units are expected to increase participation in the program in the future. Funding is set at $3.7 million General Fund for 2019-21.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $39.6 million General Fund and $224.4 million total funds represents a $4.4 million, or 12.6%, increase in General Fund and an $15.9 million, or 7.6%, increase in Federal Funds over the 2017-19 legislatively approved budget. Major changes in the 2019-21 budget include:

- Phase-in of the Oregon Volunteers Commission program transferred from the Governor's Office during 2017-19 ($27,388 General Fund and $3.3 million Federal Funds) and the phase-out of one-time costs totaling $1.1 million General Fund and $8.1 million Other Funds. Phased-out programs include the College Possible grant, Open Educational Resources (added back below), issuance costs for bonds, and the Task Force on Student Mental Health Support.
- To meet the operational and administrative needs of the agency, six positions (5.30 FTE) are added, including two positions for procurement, an internal auditor, two human resources positions, and one position to deal with monitoring and process of bonding and capital financing requests from public universities and community colleges. Total costs of these positions is $818,755 General Fund and $1.4 million total funds. A Culture, Diversity and Inclusion Officer position (1.00 FTE) was also established at a cost of $122,866 General Fund and $245,362 total funds. An accounting position (0.5 FTE) no longer needed was eliminated saving $29,416 General Fund.
- A one-time position for 2017-19 to support the work related to ensuring credits transfer smoothly from community colleges to public universities is continued as a permanent position at a cost of $255,743 General Fund. Another position is continued for the Oregon Scholars program which is funded with resources transferred from the Oregon Department of Education (ODE).
- A System Alignment manager position (1.00 FTE) for workforce related programs is established ($90,630 General Fund and $271,889 Federal Funds) to direct the development and implementation of changes and strategic initiatives across multiple agencies.
- Nine positions (8.50 FTE) are established for the educational Statewide Longitudinal Data System (SLDS) which provides K-20 educational, early learning, employment, and other data to develop and evaluate education related policy initiatives. Funding in the amount of $4.2 Other Funds will be transferred from ODE from General Fund and Fund for Student Success resources. Prior to 2019-21, the SLDS was part of the Chief Education Office.
- The Open Educational Resources program is continued at a cost of $669,200 to prepare textbooks and other materials at post-secondary educational institutions at a lower cost for students as an alternative to purchasing published textbooks.
- Funding for the second year of the National Guard State Tuition Assistance program started in 2018 is phased in but based on the initial participation in the program the current service level funding for the program of $5.2 million General Fund is reduced to $3.7 million General Fund.

State Support to Public Universities (Combined Totals)

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	942,156,082	1,054,908,092	1,154,905,146	1,216,963,815
Lottery Funds	40,418,608	64,121,610	95,424,861	93,150,451
Other Funds	322,798,793	406,176,426	--	82,576,783
Other Funds (NL)	682,127,120	243,816,758	203,917,130	203,917,130
Federal Funds (NL)	625,641	4,598,450	4,597,230	4,597,230
Total Funds	**$1,988,126,244**	**$1,773,621,336**	**$1,458,844,367**	**$1,601,205,409**

Program Description

Oregon's seven public universities are the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), Eastern Oregon University (EOU), Western Oregon University (WOU), Southern Oregon University (SOU), and the Oregon Institute of Technology (OIT). Prior to 2013, 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. 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 with separate governing boards. While HECC provides statewide coordination of the public universities and performs some academic oversight functions, the separate governing boards have the authority to manage their respective institutions, including setting tuition and hiring the university president.

Revenue Sources and Relationships

The change to non-state agency status exempted the public universities 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 public universities are no longer considered state agencies. Non-state funded university expenditures and position counts are not included in the state budget.

State support to the seven public universities is provided through a number of programs and functions. The following table includes program funding for the 2017-19 legislatively approved budget and the 2019-21 legislatively adopted budget. The majority of public university state support is provided through direct General Fund appropriations for programs and debt service. Lottery Funds allocations support the Outdoor School program at the OSU Extension Service, the Sports Lottery program, and debt service on outstanding lottery revenue bonds issued for the benefit of the public universities. Other Funds revenues include the proceeds of state bonds issued for public university capital construction projects, as well as a lesser amount of interest earnings and excess proceeds that may be applied to debt service payments on outstanding general obligation bonds. Nonlimited Other Funds is provided for debt service payments on outstanding Article XI-F (1) general obligation bonds and other "legacy" debt that is repaid by the public universities from their own sources. Federal Funds support a portion of debt service on outstanding Build America Bonds.

State Support for Public Universities

(Millions of Dollars)

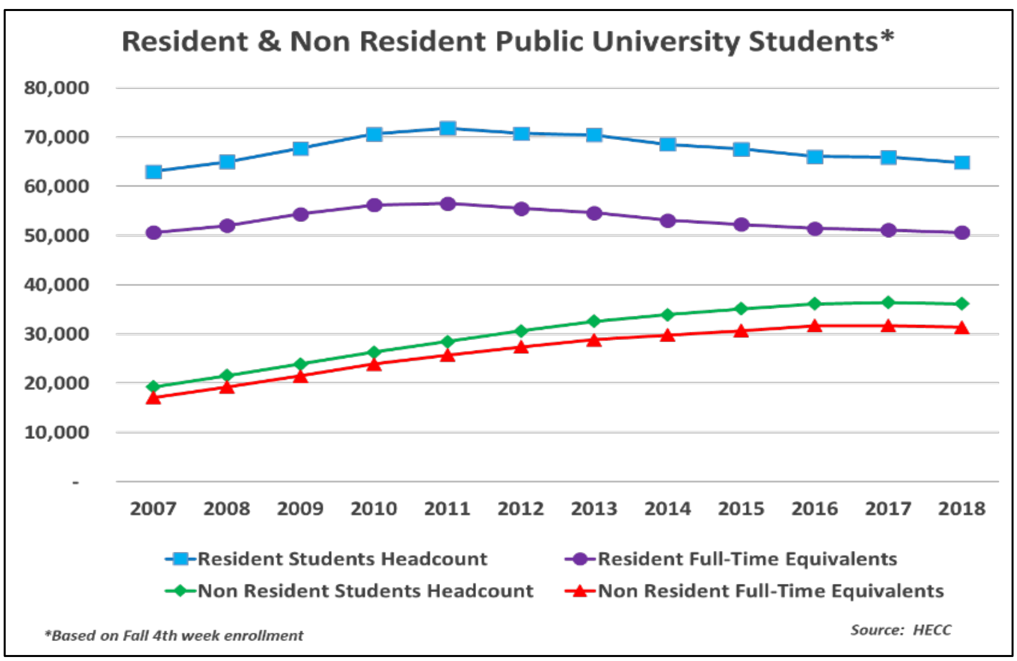
	2017-19 Legislatively Approved Budget						*2019-21 Legislatively Adopted Budget*					
	General Fund	**Lottery Funds**	**Other Funds**	**Other Funds NL**	**Federal Funds NL**	**Total Funds**	**General Fund**	**Lottery Funds**	**Other Funds**	**Other Fund NL**	**Federal Funds NL**	**Total Funds**
Public University Support Fund	736.9	-	-	-	-	736.9	836.9	-	-	-	-	836.9
Public University State Programs	46.2	-	-	-	-	46.2	45.0	-	-	-	-	45.0
Agricultural Experiment Station	66.5	-	-	-	-	66.5	76.2	-	-	-	-	76.2
Extension Service	47.7	24.0	-	-	-	71.7	56.0	45.3	-	-	-	101.3
Forest Research Laboratory	10.2	-	-	-	-	10.2	11.4	-	-	-	-	11.4
Sports Lottery	-	8.2	-	-	-	8.2	-	14.1	-	-	-	14.1
Debt Service	147.4	31.9	6.7	212.8	4.6	403.4	191.5	33.7	4.9	203.9	4.6	438.6
Capital Construction	-	-	399.5	31.0	-	430.5	-	-	77.7	-	-	77.7
Total Public University Support	**1,054.9**	**64.1**	**406.2**	**243.8**	**4.6**	**1,773.6**	**1,217.0**	**93.1**	**82.6**	**203.9**	**4.6**	**1,601.2**

State General Fund support for the public universities in the 2019-21 biennium totals $1.217 billion and Lottery Funds total an additional $93.2 million. General Fund and Lottery Funds support is an increase of $191.1 million, or 17.1%, over the 2017-19 legislatively approved budget.

Public University Support Fund: $836.9 Million General Fund

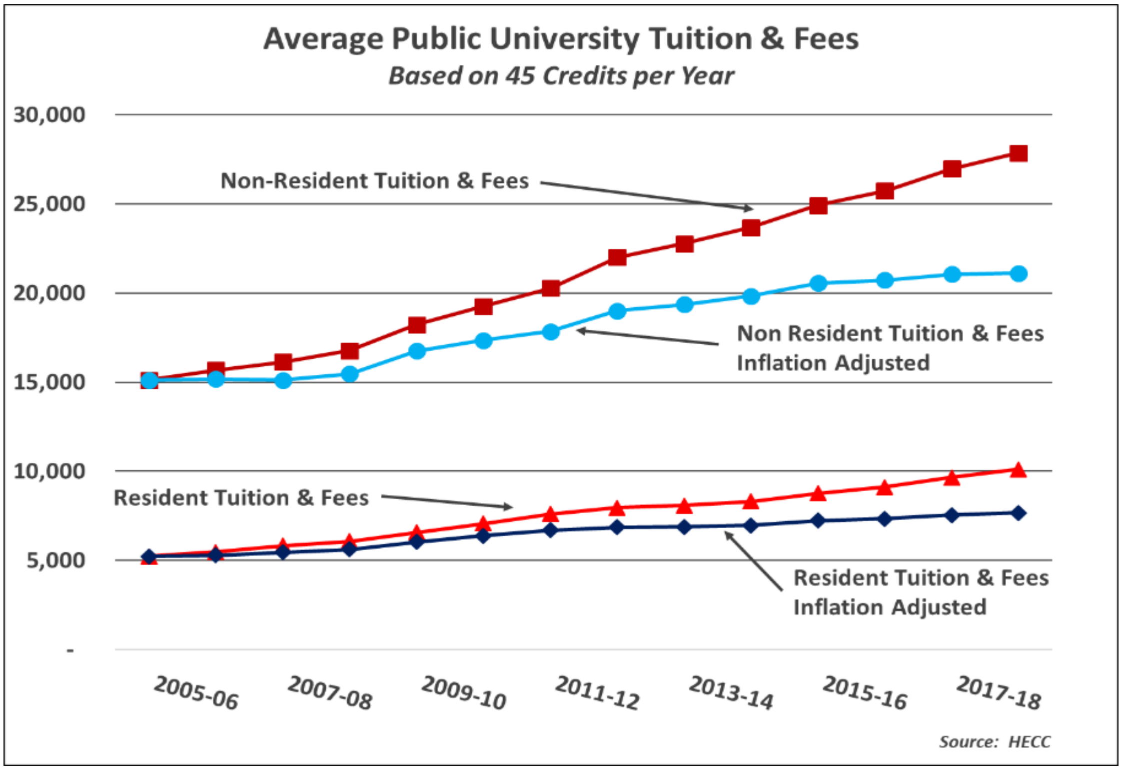
The Public University Support Fund (PUSF) includes the state funding for instruction, research, and operating costs of the seven public universities and represents the largest share of state support for public universities. The Legislature appropriates an aggregate amount for the PUSF, as opposed to specifying amounts for individual institutions. HECC allocates the PUSF to the public universities using the Student Success and Completion Model (SSCM). The SSCM distribution formula is based on three funding categories: line item funding for programs and services that support the regional, research, and public services missions of the universities (Mission Differentiation); student credit hour completions of undergraduate and graduate Oregon resident students (Activity Based); and resident degree and certification completions, with an emphasis on completions by underrepresented students and those in high-demand and high-reward fields (Completion). Prior to the 2015-16 academic year, PUSF support had been allocated to the various institutions and programs in annual budgets through the Resource Allocation Model (RAM), which was primarily based on enrollment. HECC developed the SSCM in the 2015-17 biennium as a new method for distributing PUSF appropriations that attached more weight to academic outcomes. During the 2019-21 biennium, HECC will be convening a workgroup that includes public university representatives and stakeholders to review the SSCM to determine if modifications to the funding model are warranted.

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 101,024 (82,015 FTE) in 2018. 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 2018 the percentage of non-resident students had grown to 35.8% (38.3% FTE).



The growth in the number of non-resident students exists even with significantly higher tuition and fees, which have also increased at a faster rate as shown in the following chart. In addition, the chart demonstrates the rate of increase in tuition and fees has outpaced general inflation for both resident and non-resident students.

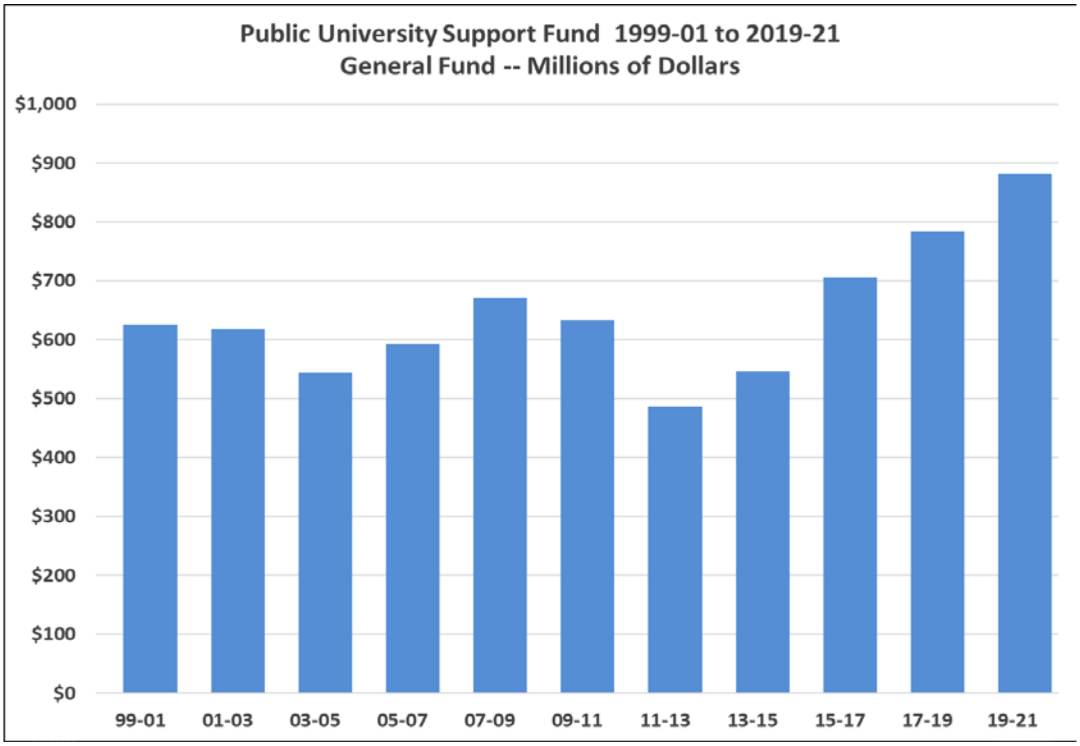
During the same period that public universities were experiencing higher enrollments, state funding levels did not keep pace with the growing number of students. This meant public universities began to rely more on tuition and fees to keep pace with total costs. Based on data collected by the former Oregon University System (OUS), assistance from the state fell as a share of total revenues from 47% in 2001 to 19% in 2013, and the share from tuition 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. However, public university support in the 2015-17 legislatively approved budget, including approved funding for the PUSF and State Programs, was approximately 22% of actual fiscal year 2016 and 2017 educational and general support expenditures reported by the universities.



<u>Legislatively Adopted Budget</u>

The 2019-21 legislatively adopted budget for the Public University Support Fund, which includes the instruction, research, some public service expenditures, and operating costs of the seven public universities, totals $836.9 million, which is $100 million, or 13.6%, more than the 2017-19 budget level (7.7% above the 2019-21 current service level). Increased state support for the PUSF is intended to reduce tuition rates, offset education and general expenditure reductions, and decrease the use of university reserves during the biennium. Resident undergraduate tuition growth in the 2019-20 academic year is at or below 5% for EOU, OSU, PSU, and WOU. At its June 2019 Commission meeting, HECC approved undergraduate in-state tuition and fee increases above 5% for OIT (5.7%), SOU (9.9%), and UO (7.1%).

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 when 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: $45.0 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 for which the funding flows through the public universities. 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 2019-21 legislatively adopted budget level of $45 million General Fund represents a $1.3 million, or 2.7%, decrease from the 2017-19 legislatively approved budget. The decrease is primarily due to the phase out of $5.8 million of one-time funding included in the 2017-19 budget for capital projects at EOU and OSU Cascades; OSU's Molluscan Broodstock Program and Ocean Acidification Research projects; a grant for the PSU/OHSU Center for Violence Prevention Research; and match for OSU's wave energy test site. In addition, funding for the Criminal Justice Policy Research Institute at PSU was transferred from HECC to the Criminal Justice Commission. The 2019-21 adopted budget includes current service level funding for ongoing state programs, as well as the addition of $2.4 million in one-time investments for OSU's PacWave South wave energy test site, research at OIT's Oregon Manufacturing Innovation Center (OMIC) R&D Rapid Toolmaking Center for Excellence, and system integration funds for OIT to develop additive manufacturing and prototyping training capability at the Klamath Falls campus. HB 2437 (2019) also included funding for OSU College of Agricultural Sciences to perform a study of the benefits and impacts of maintenance activities in traditionally maintained channels, which is anticipated to continue through the 2023-25 biennium.

Public University State Programs

Program	2019-21 Legislatively Adopted Budget
Engineering Technology Sustaining Funds	27,004,433
TallWood Design Institute	3,754,328
Dispute Resolution	2,429,882
Oregon Solutions	2,493,171
OSU Fermentation Science	1,369,036
Signature Research Centers	1,149,231
Labor Education Research Center	1,098,396
OSU Marine Research Vessel	684,519
Oregon Renewable Energy Center	527,500
Population Research Center	480,769
Institute of Natural Resources	440,776
Clinical Legal Education Program	384,422
Oregon Climate Change Research Institute	345,502
Willamette Falls Locks Commission	200,450
OSU PacWave South Wave Energy Test Site	1,600,000
OIT OMIC Rapid Toolmaking Center of Excellence Research	450,000
OIT Additive Manufacturing and Rapid Prototyping Education Lab	300,000
OSU Channel Maintenance Impact Study (HB 2437)	239,583
Total State Programs	**44,951,998**

Statewide Public Service Programs: $143.6 Million General Fund, $45.3 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, the Agricultural Experiment Station conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and through 11 branch experiment stations, with 14 locations in major crop and climate areas of the state.
- Extension Service – This program is the educational outreach arm of OSU as Oregon's Land, Sea, Sun, and Space 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. Beginning in 2017-19, the Extension Service became responsible for the Outdoor School program for 5th and 6th graders across the state. The Outdoor School program is supported with Lottery Funds through the passage of Ballot Measure 99 (2016), which dedicated 4% of net lottery proceeds, up to a maximum of $22 million annually (adjusted for inflation), to the Outdoor School Education Fund.
- Forest Research Laboratory at OSU – Established by the Oregon Legislature in 1941, it conducts research on forest management, forest ecosystems, and renewable materials to solve problems and create innovative approaches to managing forests. Studies are conducted cooperatively in public and private forests and manufacturing facilities. A 15-member statutory advisory committee provides forest management, use, harvest, and utilization guidance to the Laboratory.

<u>Legislatively Adopted Budget</u>
The Legislature increased General Fund support for the three Statewide Public Service programs at Oregon State University by $19.2 million General Fund to a total of $143.6 million, which is 15.4% above 2017-19 budget levels. An increase of $7.6 million, or 5.8%, above current service level was provided to cover OSU's estimate of inflationary costs to maintain existing personnel and programs, as well as restore capacity that was lost in the prior biennium by filling vacant positions in priority areas. Additional General Fund investments include $2 million for the Extension Service to build fire resilience and resistance by expanding the OSU Forestry Extension pilot fire program into a statewide effort; $2.7 million to the Agricultural Experiment Station ($2.3 million) and Extension Service ($410,000) for an integrated river basin water quality and quantity program that will address increasing water conservation, storage, instream flows, integrating water and fertilizer management, and increasing irrigation efficiency; and $375,000 for two organic agricultural faculty positions in the Extension Service to support the OSU College of Agricultural Sciences' Organic Farming Program. A one-time investment of $125,000 for the Agricultural Experiment Station was also approved to continue funding for a berry research position at the OSU North Willamette Research and Extension Center.

The Legislature also approved $45.3 million Lottery Funds for the Outdoor School program, which represents a $21.3 million, or 88.8%, increase over the prior biennium. The 2017-19 legislatively approved budget included approximately 54% of the funding authorized in Ballot Measure 99, which allowed the program to be phased in over its first two years. The 2019-21 approved Lottery Funds allocation, combined with a $1.5 million projected ending balance of funding from the prior biennium, provides total funding of $46.3 million for Outdoor School.

Statewide Public Service Programs
(Millions of Dollars)

	2017-19 Legislatively Approved Budget			*2019-21 Legislatively Adopted Budget*		
	General Fund	**Lottery Funds**	**Total Funds**	**General Fund**	**Lottery Funds**	**Total Funds**
Agricultural Experiment Station	66.5	-	66.5	76.2	-	76.2
Extension Service	47.7	24.0	71.7	56.0	45.3	101.3
Forest Research Laboratory	10.2	-	10.2	11.4	-	11.4
Total Statewide Public Services	**124.4**	**24.0**	**148.4**	**143.6**	**45.3**	**188.9**

Sports Lottery: $14.1 Million Lottery Funds

The Sports Lottery program began in 1989 when the Legislature authorized a special Sports Action game and directed that the proceeds from the game be used to finance intercollegiate athletics and non-athletic scholarships. 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 proceeds to the Sports Lottery Account. Statute directs that 88% of the amount allocated to the Sports Lottery Account, not to exceed $8 million annually, be used to finance intercollegiate athletics at the public universities. The remaining 12%, not to exceed $1.1 million annually, is awarded for graduate student scholarships based on academic merit and need. 70% of the athletic funds must be used for non-revenue producing sports, and at least 50% must be used for women's athletics. Due to budget constraints, the Legislature has often approved a fixed Lottery Funds allocation for Sports Lottery that is less than the dedicated 1% amount.

<u>Legislatively Adopted Budget</u>
The 2019-21 approved Sports Lottery funding of $14.1 million is a $5.9 million, or 71.1%, increase over the 2017-19 budget. Sports Lottery funding was limited to $8.24 million in the prior two biennia. The increased funding is allocated to the four technical and regional public universities (EOU, OIT, SOU, WOU), bringing the 2019-21 allocation for each to $2.4 million. Amounts distributed to the remaining universities (OSU, PSU, UO) continue at

the level approved in the prior two biennia. The allocations to OSU and UO have been capped at $1.03 million each since the 2013-15 biennium. The 2019-21 fixed amount of $14.1 million approved for Sports Lottery was based on the current service level budget amount, equivalent to 1% of lottery proceeds as of the June 2018 lottery revenue forecast and slightly less ($498,632) than May 2019 projection.

Sports Lottery Allocation

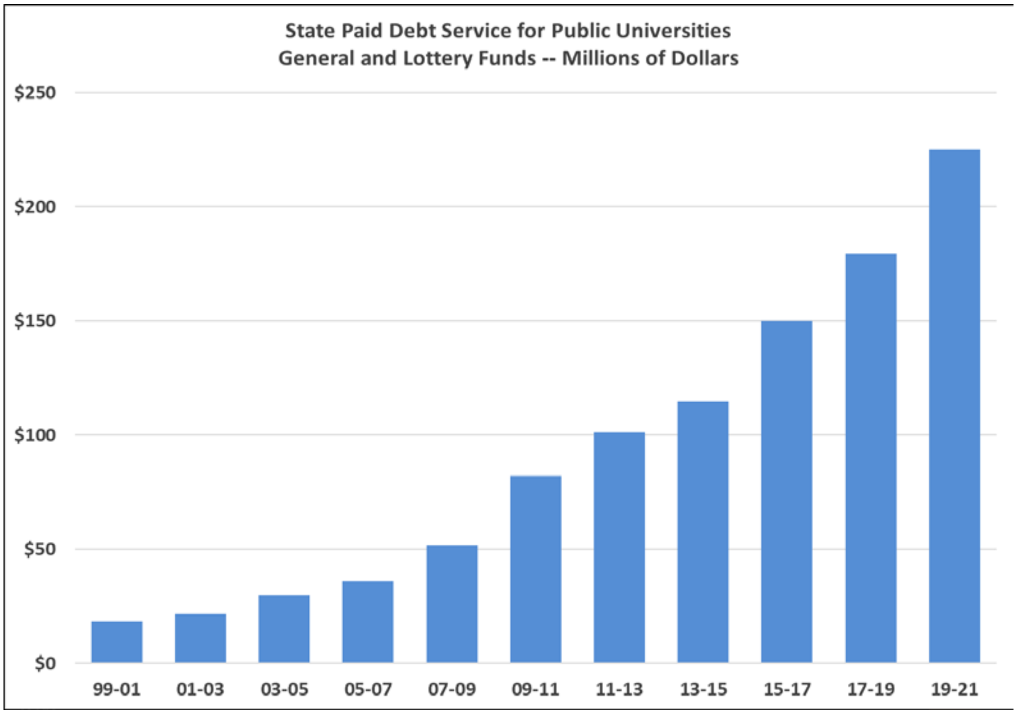
University	2019-21 Legislatively Adopted Budget
Eastern Oregon University	2,440,561
Oregon Institute of Technology	2,440,560
Oregon State University	1,030,000
Portland State University	2,277,567
Southern Oregon University	2,440,560
University of Oregon	1,030,000
Western Oregon University	2,440,561
Total Sports Lottery	**14,099,809**

Public University Debt Service: $191.5 Million General Fund, $33.7 Million Lottery Funds

The public university debt service budget includes state funded debt service expenditures for capital construction projects financed through the issuance bonds (Article XI-G and XI-Q general obligation bonds and Lottery Bonds), as well as debt service paid by public universities for self-supported bonds (Article XI-F (1) general obligation bonds and legacy debt). General Fund appropriations support debt service on Article XI-G and XI-Q bonds, traditionally used to finance instructional and public service facilities, as well as a portion of the repayment of Small Scale Local Energy Loans financed through the issuance of Article XI-J bonds. Lottery Funds support debt service on lottery revenue bonds issued to finance public university capital repairs and facilities. University revenues support repayment of debt service on Article XI-F (1) bonds, which finance self-supporting facilities, such as student unions, dorms, and parking structures. State general obligation bonds must be authorized by the Legislature, including those supported with non-state funds, and associated debt service payments must still be included in the budget. Other Funds Nonlimited expenditure limitation is included for debt service payments on outstanding Article XI-F (1) bonds, as well as debt service on legacy Article XI-F (1) bonds, Article XI-Q bonds, and certificates of participation (COPs) supported with university revenues.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget includes $225.2 million General Fund and Lottery Funds for debt service on outstanding bonds issued for public university capital construction projects. State paid debt service is a $46 million, or 25.6%, increase over the 2017-19 legislatively approved budget of $179.3 million and an increase of 50% from the 2015-17 budget. Since 2009-11, the combined General and Lottery Funds for public university debt service paid by the state has increased over 170%, reflecting the level of bonding approved for university capital projects. The following graph shows historical levels of state paid debt service.



The 2019-21 budget also includes $4.9 million Other Funds from interest earnings and excess proceeds that will be applied to debt service payments on state-supported bonds during the biennium. Other Funds Nonlimited debt service payments on bonds supported with university revenues is estimated at $203.9 million in 2019-21 and federal subsidy payments on outstanding Build America Bonds is estimated at $4.6 million.

Capital Construction: $77.7 Million Other Funds

The Capital Construction budget includes six-year capital construction expenditure limitation for public university capital projects financed through the issuance of state general obligation and lottery bonds. Prior to the elimination of the Oregon University System (OUS), the Capital Construction unit accounted for public university capital construction projects financed through the issuance of state bonds. When OUS became a non-state agency in the 2013-15 biennium, these Capital Construction payments were not included in the state budget, because, by law, OUS was not limited by Other Funds expenditure limitations. However, with the termination of OUS, a state agency had to include these payments in its budget and expenditure limitation was added to HECC's budget in the 2015-17 biennium. Nonlimited authority was also provided to HECC in 2015-17 and 2017-19 to disburse remaining bond proceeds from 2013-15 issuances. HECC accounts for these expenditures as grants (Article XI-G, Article XI-Q, and lottery bonds) or loans if the debt service is supported by the universities (Article XI-F (1) bonds). Article XI-G bonds require an equal match from the public university, Article XI-Q and lottery bonds have no matching fund requirements, and Article XI-F (1) bonds are supported by institution revenues. Issuance costs for these bonds are included in the HECC Operations budget unit.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget includes $77.7 million Other Funds capital construction six-year expenditure limitation for distribution of general obligation bond proceeds to public universities. This represents a significant decrease (80.5%) from the $399.5 million approved for public university capital projects in the 2017-19 legislatively approved budget. Article XI-Q bonds were approved in the 2019 session to finance public university facilities capital improvement and renewal and a building and research equipment at the Oregon Manufacturing Innovation Center (OMIC) Research and Development Campus. Approval of remaining university capital project requests was deferred, pending HECC's completion of a 10-Year Strategic Capital Development Plan for public university facilities.

Public University Capital Construction Projects for 2019-21

Project	Institution	Article XI-G Bonds	Article XI-Q Bonds	Article XI-F (1) Bonds
Capital Improvement and Renewal	All	-	65,000,000	-
OMIC R&D Rapid Toolmaking Center, Rapid Prototyping Education Lab, and Sinter HIP Equipment	OIT	-	12,700,000	-
Total Capital Construction		-	**77,700,000**	-

State Support to Community Colleges (Combined Totals)

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	598,210,325	640,447,543	671,100,268	715,028,372
Lottery Funds	10,171,150	11,699,204	11,520,140	11,277,642
Other Funds	106,925,333	103,720,642	45,810	28,032,665
Total Funds	**$715,306,808**	**$755,867,389**	**$682,666,218**	**$754,338,679**

Program Description

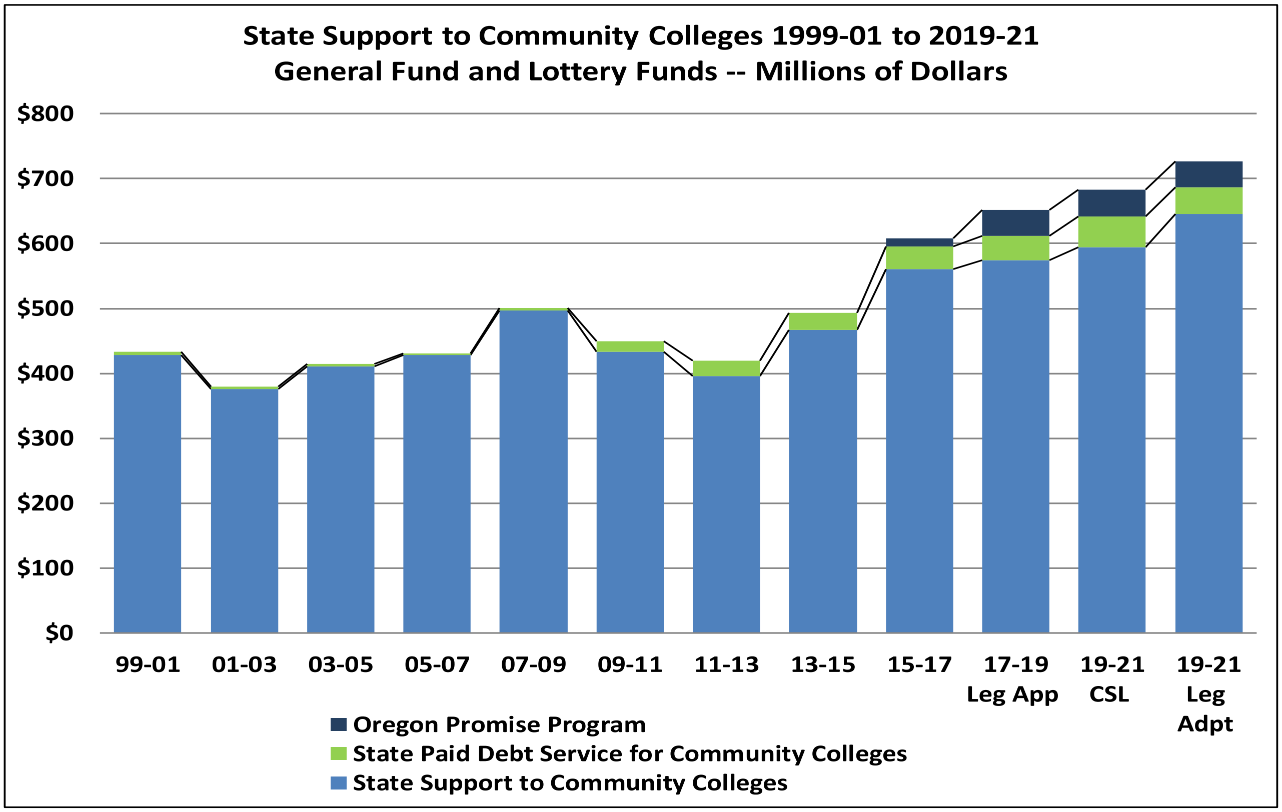
This program area represents the funds distributed to the 17 community colleges, debt service payments on state issued bonds for community college facilities, capital construction, and specific payments for programs that benefit community colleges and their students. This budget area includes the Oregon Promise program which is available only to community colleges students, but administered through the Office of Student Access and Completion (OSAC). The following table shows the programs included in this budget area.

State Support for Community Colleges

Millions of Dollars

	2017-19 Leg Approved Budget				*2019-21 Leg Adopted Budget*			
	General Fund	Lottery Funds	Other Funds	Total	General Fund	Lottery Funds	Other Funds	Total
Community College Support Fund	570.3			570.3	640.9			640.9
Skills Centers	0.6			0.6	0.6			0.6
Underserved Students	3.1			3.1	3.3			3.3
Oregon Promise Program	40.0			40.0	40.2			40.2
Treasure Valley Career & Tech Center					1.0			1.0
Debt Service	26.5	11.7	0.8	39.0	29.1	11.3	3.1	43.5
Capital Construction	-	-	102.9	102.9	-	-	24.9	24.9
Totals	**640.4**	**11.7**	**103.7**	**755.9**	**715.0**	**11.3**	**28.0**	**754.3**

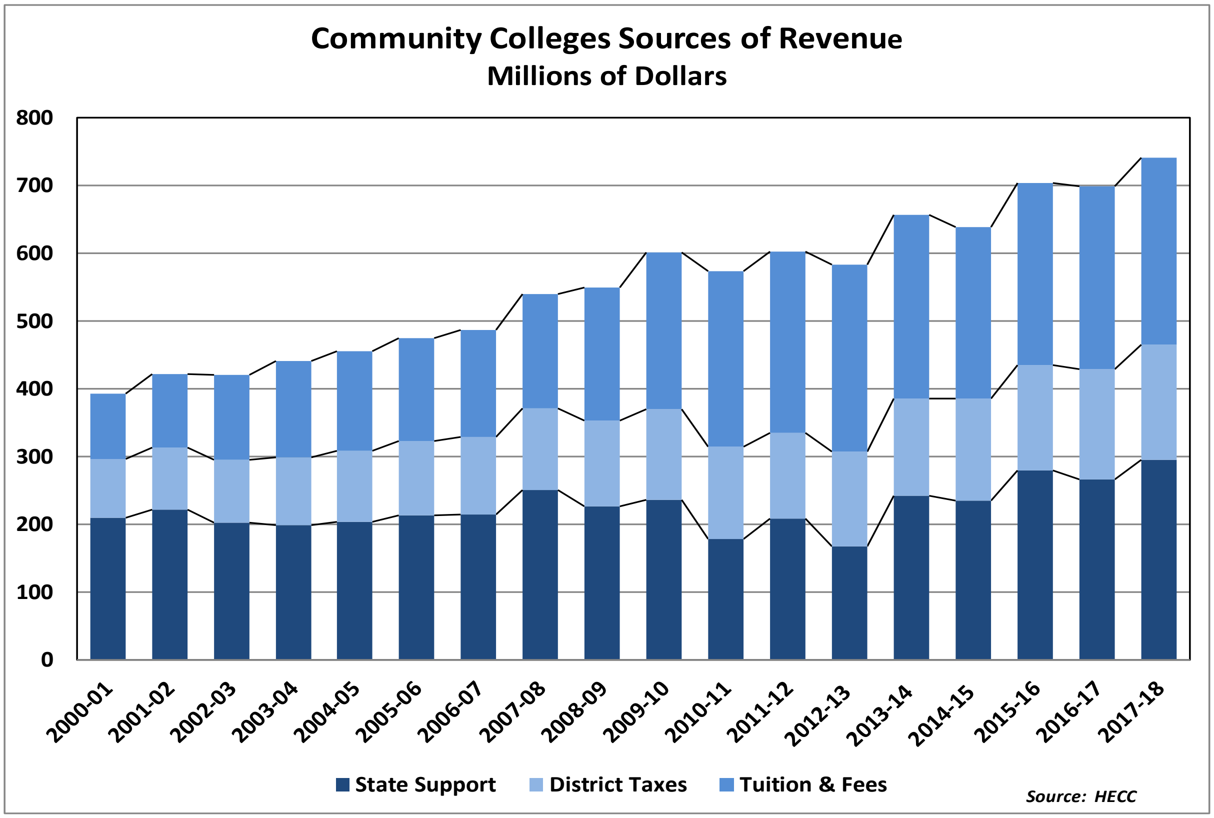
The following chart shows the amount of General Fund and Lottery Funds resources over time for this program area, including the more recent Oregon Promise Program:



Revenue Sources and Relationships

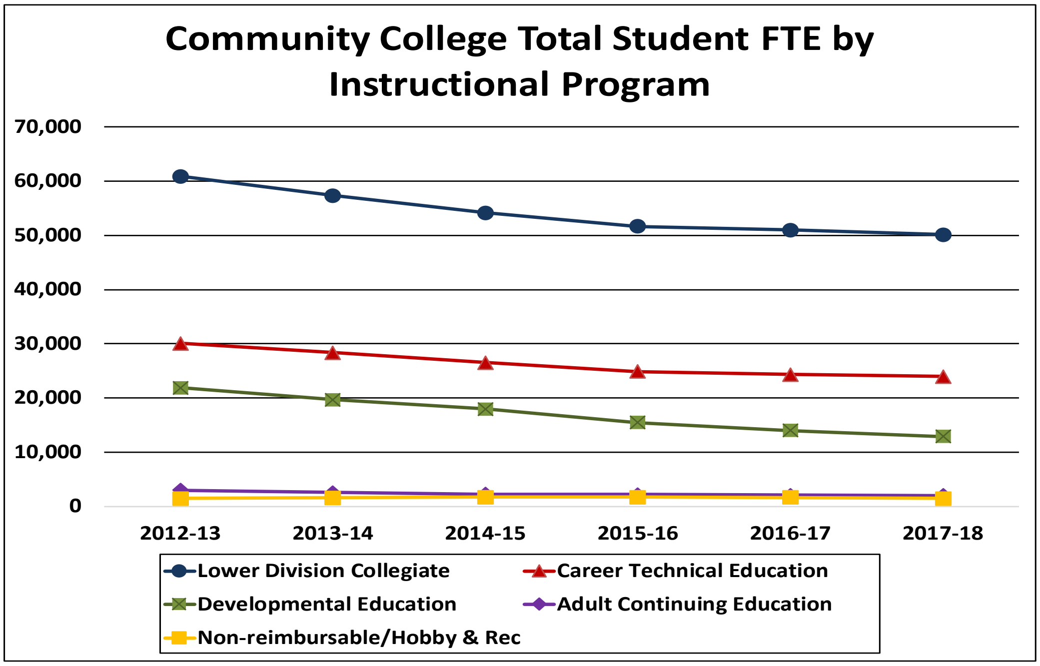
Other Funds reflect receipts from the state timber tax and are distributed through the Community College Support Fund. Community colleges also collect property taxes to fund operations. These taxes do not flow through the state budget and are not included in any budget figures identified here but are a factor in the distribution of the state funding for community colleges. Approximately $378.6 million of property tax collections are projected by the Legislative Revenue Office for community colleges operations in 2019-21, up from an estimated $351.6 million in the 2017-19 biennium. The other major source of resources for the general operational costs of community colleges is tuition and fee revenues.

The mix of general-purpose funding for community colleges between state support, property taxes, and tuition and fees has changed over the past 15 or more years. The following chart 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 2017-18. Tuition and fees have become more and more important, growing from 25% in 2000-01 to 47% in 2012-13, falling back to 37% for 2017-18. The amount from property taxes during this period has remained relatively stable ranging from 22% to 24%.

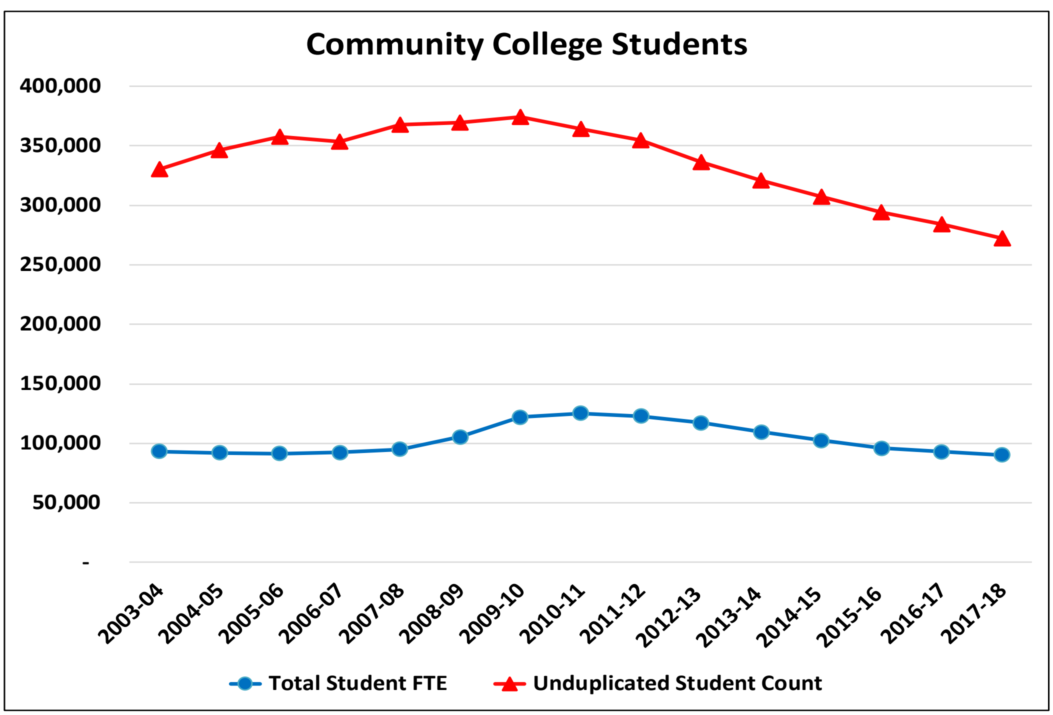


Community College Support Fund and Other Programs: $645.8 Million General Fund

This budget area primarily 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 $640.9 million General Fund for 2019-21. The Community College Support Fund has been distributed primarily on an adjusted enrollment basis. There is a funding floor or base amount for smaller community colleges. Up to 1.5% of the total funds available have been set aside in the past 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 are similar to 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. Enrollment in “hobby” and recreational courses do not factor into the distribution formula. The following chart demonstrates the number of student FTE by each type of student.

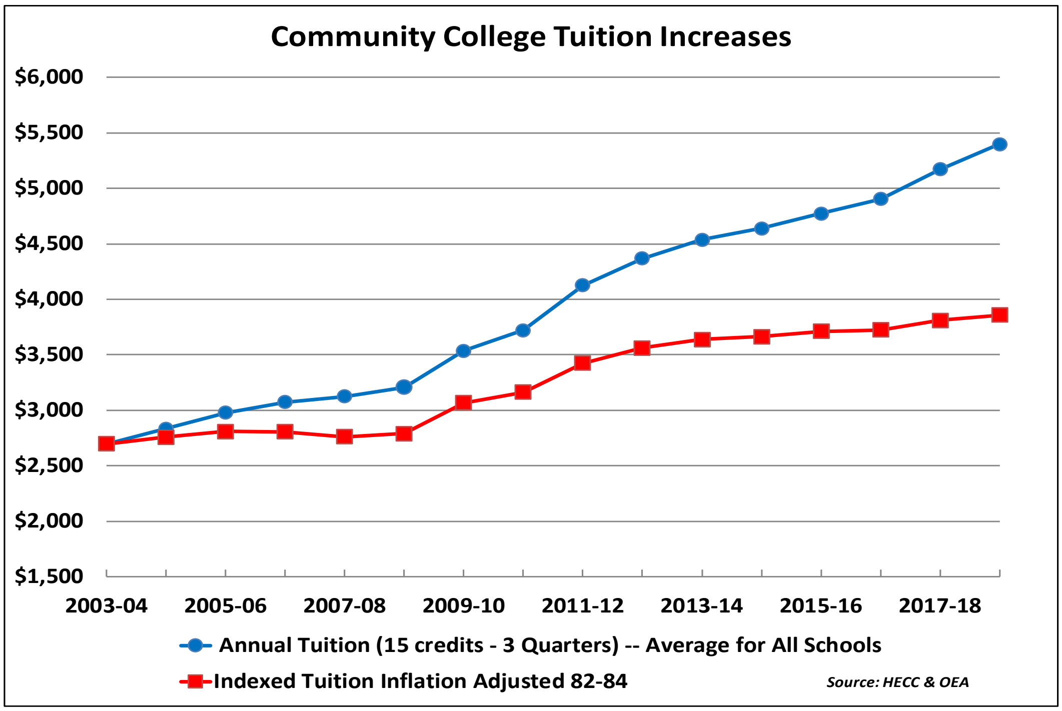


As demonstrated in the following graph, between the 2006-07 and 2011-12 academic years, full-time student equivalent (FTE) attendance at community colleges increased by 33%, primarily due to students taking lower division collegiate courses. Almost all of this growth is concentrated in the period between 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 much slower rate as measured by the unduplicated student count. 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 overall impact on the numbers and trends in the data still exist.



The level of funding for the Community College Support Fund is not dependent on the number of students attending Community Colleges. Funding in 2011-13 was approximately $395 million and enrollment (based on student FTE) was roughly 123,000 in 2011-12. Funding for 2015-17 was higher at $570 million, but the FTE count at just over 93,000 in 2016-17 school year was less than what it was in 2011-13. Enrollment is not the only cost variable, but other programs such as the State School Fund and the Oregon Health Plan do use enrollment or number of "eligibles" in current service level calculations which is seen as a starting point in the budget process.

Tuition at community colleges continues to increase. A major factor is increasing costs driven in part by PERS costs. The following chart, based on data maintained by HECC, shows that combined tuition and fees have climbed steadily between the 2003-04 and 2018-19 school years, increasing by just under 100% (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 42%). Tuition growth was especially prevalent from 2008-09 to 2012-13 when the increases in the Community College Support Fund contributions were smaller or actually decreased each year.



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.

Legislatively Adopted Budget

The $645.8 million General Fund appropriated for 2019-21 represents a $71.8 million, or 12.5%, increase over the 2017-19 legislatively approved budget and a $50 million, or 8.5%, increase over the 2019-21 current service level. The Community College Support Fund represents $640.9 million of this budgeted amount. Other programs included in this budget area are: payments ($592,655 General Fund) to the two Skills Centers in the Portland Metro area; $3.3 million General Fund for increasing the number of under-served, low-income, and first-generation community college students; and $975,000 General Fund for a one-time grant to Treasure Valley Community College for a Career and Technical Center.

Oregon Promise Program: $40.2 Million General Fund

In 2015, the Legislature established the Oregon Promise program (SB 81) to increase college enrollment, completion, and affordability. The program was implemented in the second year of the 2015-17 biennium and provided grants to offset tuition for eligible community college students for up to 90 college credits. 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. The minimum grant size is $1,000 and the average grant size was $1,679 for 2018-19 and is projected to be $1,808 for 2019-20.

While this program is designed to serve all those that are eligible, the design of the program does direct more funding to students from households with higher incomes. This is because the program is a "last dollar" program meaning all applicants must first access all available state and federal financial assistance. Lower income applicants can access PELL grants, the Oregon Opportunity Grant, and other programs, while applicants from those households with higher incomes generally do not or cannot access those programs. For the Fall quarter of the 2018-19 school year, 3,104 recipients with Expected Family Contributions or EFC (a measure used on the FAFSA) of $5,328 or less received Oregon Promise assistance totaling $963,415. The average adjusted gross income (AGI) of parents of recipients in households with EFCs of $3,501 to $5,328 averaged $63,712. In contrast, 4,643 recipients with EFCs greater than $5,328 received a total of over $3.3 million for the Fall quarter. As an example, parents of recipients with EFCs between $5,329 and $10,000 had average AGI of over $78,000 and those with EFCs Between $10,000 and $20,000 had AGIs of over $101,000.

Since this program is new, not only in Oregon but nation-wide, projecting participation and costs is difficult. Several factors contribute to the difficulty in estimating the required resources including participation rates, the rate that recipients continue from one quarter or year to another, the proportion of part-time and full-time students, and the outside job market. Another factor in the first years of the program was the need to limit the number of recipients based on a household's EFC in the 2017-18 school year due to funding availability. The 2017 Legislature passed HB 1032 which provided flexibility to HECC to limit the program to stay within available resources. That restriction was removed when it was determined that there was sufficient funding available, but it may have dampened participation.

Based on the three-year average, about 61% of the students that are authorized for the program actually participate in the program annually. Roughly 57% of the participants continue into a second year of the program. Over the past three years of the program, 81% of the participants were full-time students (12+ credits) and 19% were part-time students (less than 6 credits).

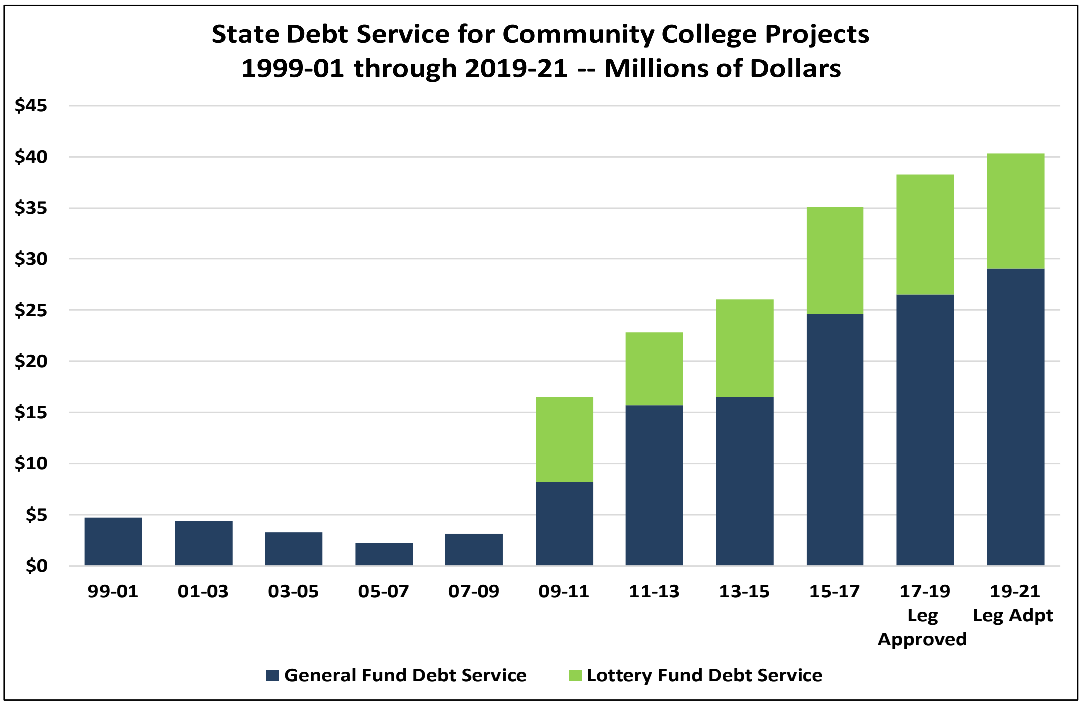
Legislatively Adopted Budget

The 2019-21 General Fund budget for the Oregon Promise program is $40.2 million, with $200,000 of this amount set aside for a specific population. The funding for the core population is a $35,612 increase from the 2017-19 legislatively approved budget. It is $1.5 million less than the 2019-21 current service level so there is the possibility that participation may have to be limited slightly or additional funding may be required. The 2019 Legislature passed HB 2910 which expands eligibility for the Oregon Promise program to include those individuals who completed certain educational requirements while serving in a correctional facility and who enroll at a community college within six months after release. Based on this budgeted amount (not including the new eligible population from HB 2910), the agency projects that for 2019-20 the average disbursement of award will be $1,808 for an estimated 11,312 recipients. This means the agency projects spending $20.5 million in the first year of the biennium, leaving just under $20 million for the second year. Enrollment in the program will have to be monitored to insure funding and participation are in balance for the second year of the biennium.

Community College Debt Service: $29.1 Million General Fund, $11.3 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 Lottery bonds. Under current law, each community college is to have only one outstanding approved XI-G project, but there have been exceptions to this rule in recent years. Some community colleges have had difficulties gathering the required match under the XI-G program so projects have not been started for years after the initial approval.

As shown by the following chart, 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. Since then as more projects have been approved, the debt service on community college projects have increased from $3.2 million (all General Fund) in 2007-09 to a combined total for 2019-21 of $40.4 million ($29.1 million General Fund and $11.3 million Lottery Funds).



Community College Capital Construction: $24.9 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 following table 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 is 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.

<u>Legislatively Adopted Budget</u>
A total of $24.9 million of Other Funds Capital Construction limitation (6-year) is included in the 2019-21 budget for four community college projects:

- $8 million for Blue Mountain Community College for phase 2 of the Facility for Agricultural Resource Management (FARM) project which will support animal science programs. Title XI-G bonds will support $1.5 million of the limitation with the remaining $6.5 million supported by Lottery Revenue Bonds. The Lottery Bonds will be used to meet the matching requirement for the XI-G bonds authorized by the 2019 Legislature and XI-G bonds authorized by the 2017 Legislature.
- $8 million for Central Oregon Community College for a 30,000 square foot classroom building on the College's Redmond campus and instructional and technology infrastructure.
- $3.91 million for Klamath Community College for a 19,050 square foot Apprenticeship and Industrial Trades Center serving apprenticeship programs including electrical and plumbing as well as programs such as fire sciences and emergency medical operations.
- $4.95 million for Treasure Valley Community College for a 30,000 square foot Nursing-Allied Health Professions Center including classrooms, laboratories, and faculty office space.

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

	2013-15		2015-17		2017-19		2019-21	
Community College	**XI-G**	**Lottery**	**XI-G**	**Lottery**	**XI-G**	**Lottery**	**XI-G**	**Lottery**
Blue Mountain	3,331,350	-	-	-	5,000,000	-	1,500,000	6,500,000
Central Oregon	3,630,000	1,630,000	-	-	-	-	8,000,000	-
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*	-	-	-	3,910,000	-
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*	-	4,950,000	-
Umpqua[1]	8,000,000	-	-	-	*8,000,000*	-	-	-
Total	**106,951,600**	**1,630,000**	**28,580,000**	**1,500,000**	**101,397,241**	**-**	**18,360,000**	**6,500,000**

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 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

	2015-17 Actual*	2017-19 Legislatively Approved*	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	80,856,311	99,027,769	101,025,993	102,977,683
Other Funds	237,760,882	38,576,738	30,871,500	30,919,866
Other Funds (NL)	14,159,401	--	7,298,890	7,298,890
Total Funds	**$332,776,594**	**$137,604,507**	**$139,196,383**	**$141,196,439**

* 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), the Office of Rural Health and Area Health Education Centers (AHEC), the Child Development and Rehabilitation Center (CDRC), and the Oregon Poison Center. State support for OHSU also includes debt service on outstanding general obligation bonds issued for the Oregon Opportunity Program and the Knight Cancer Institute.

Revenue Sources and Relationships

Other Funds limited revenues are primarily Tobacco Master Settlement Agreement funds for debt service on outstanding Article XI-L general obligation bonds issued for the Oregon Opportunity Program. OHSU received $200 million in Article XI-L bond proceeds in the 2001-03 and 2003-05 biennia for an expansion of research programs in genetics and biotechnology. The final payment is to be made in 2024. Other Funds revenues also include a minor amount of interest earnings that may be applied to debt service payments on outstanding general obligation bonds. The 2015-17 budget also included Other Funds expenditure limitation for the Article XI-G bond proceeds issued for the OSHU Knight Cancer Institute. Debt service on outstanding Article XI-G general obligation bonds is supported by General Fund. Other Funds Nonlimited support debt service on state-issued Article XI-F (1) general obligation 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 2017-19 legislatively approved budget of $77.3 million (excluding $21.7 million for debt service) provided current service level support for programs, with the exception of the Scholars for a Healthy Oregon Initiative (SHOI) and the Primary Health Care Loan Forgiveness Program financial assistance programs discussed below.

SHOI is a program that provides scholarships 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 in 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). Transfer of the programs was effective January 1, 2018, with funding for the 2017-18 and 2018-19 school years included in OHA's 2017-19 budget. The remaining budgeted amounts were phased out during development of the 2019-21 budget, with the total budget for both programs included in OHA's 2019-21 legislatively adopted 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 for state employee health services. In fiscal year 2018, the state's direct funding (excluding Oregon Opportunity and Knight Cancer Institute debt service) was less than 2% of OHSU's $3.1 billion operating revenues.

Legislatively Adopted Budget

The Higher Education Coordinating Commission's 2019-21 legislatively adopted budget includes state support for OHSU's education and other programs, as well as debt service on outstanding bonds issued for the benefit of OHSU. In prior biennia, debt service on outstanding Article XI-L Oregon Opportunity Bonds, Article XI-G bonds issued for the Knight Cancer Institute, and legacy Article XI-F (1) bonds was included in the Department of Administrative Services (DAS) budget and debt service on legacy Article XI-G bonds was included in HECC's budget. During the 2018 session, statutory changes were made to consolidate the budget and responsibility for administering debt service on outstanding general obligation bonds issued for the benefit of OHSU within HECC's budget. The 2017-19 legislatively approved budget reflects the mid-biennium transfer, with debt service payments prior to May 2018 in DAS' budget and payments through the remainder of the biennium in HECC's budget. Consolidating state support to OHSU, including debt service, within HECC simplifies and makes the budget more transparent, as well as aligns OHSU debt service expenditures within the post-secondary education budget. Funding for OHSU programs in the 2017-19 and 2019-21 biennia is provided in the following table.

State Support for Oregon Health and Science University
(Millions of Dollars)

	2017-19 Legislatively Approved Budget			*2019-21 Legislatively Adopted Budget*		
	General Fund	**Other Funds**	**Total Funds**	**General Fund**	**Other Funds**	**Total Funds**
HECC Budget - Programs						
School of Medicine	25.8	-	25.8	26.9	-	26.9
School of Nursing	22.3	-	22.3	23.2	-	23.2
School of Dentistry	10.4	-	10.4	10.9	-	10.9
Office of Rural Health/Area Health Education Centers	4.6	-	4.6	4.8	-	4.8
Child Development and Rehabilitation Center	8.3	-	8.3	8.6	-	8.6
Oregon Poison Center	2.7	-	2.7	2.8	-	2.8
Scholars for a Healthy Oregon Initiative	2.7	-	2.7	-	-	-
Primary Health Care Loan Forgiveness Program	0.5	-	0.5	-	-	-
Children's Integrated Health Database	-	-	-	2.0	-	2.0
Total Programs	**77.3**	**-**	**77.3**	**79.2**	**-**	**79.2**
HECC Budget - Debt Service						
Oregon Opportunity Program - XI-L Debt Service	-	17.2	17.2	-	30.9	30.9
OHSU Knight Cancer Institute - XI-G Debt Service	11.8	-	11.8	23.5	-	23.5
Legacy Debt - XI-F (1) and XI-G Debt Service	0.6	3.9	4.5	0.3	7.3	7.6
DAS Budget - Debt Service						
Oregon Opportunity Program - XI-L Debt Service	-	13.7	13.7	-	-	-
OHSU Knight Cancer Institute - XI-G Debt Service	9.4	-	9.4	-	-	-
Legacy Debt - XI-F (1) and XI-G Debt Service	-	3.8	3.8	-	-	-
Total Debt Service	**21.8**	**38.6**	**60.4**	**23.8**	**38.2**	**62.0**
Total OHSU Budget	**99.1**	**38.6**	**137.7**	**103.0**	**38.2**	**141.2**

The 2019-21 legislatively adopted budget for OHSU programs and debt service totals $103 million General Fund and is $3.9 million, or 4%, more than General Fund support in the 2017-19 legislatively approved budget. The increase is net of a $3.2 million General Fund reduction to phase-out the remaining budgeted amounts for the SHOI and Loan Forgiveness Programs. Growth is attributable to inflation for academic and other programs, as well as a one-time investment of $2 million to the OHSU Center for Evidence-based Policy for the Children's Integrated Health Database.

Oregon Opportunity Grant Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	128,349,485	125,217,521	129,975,787	109,510,413
Lottery Funds	4,951,069	20,746,268	21,534,626	40,000,000
Other Funds	402,364	163,213	169,415	14,669,415
Total Funds	**$133,702,918**	**$146,127,002**	**$151,679,828**	**$164,179,828**

Program Description

The Oregon Opportunity Grant (OOG) is the state's primary student needs-based financial aid program providing eligible Oregon students with grants to assist in financing education at Oregon-based community colleges, public universities, and private or independent institutions. The program is administered by HECC's Office of Student Assistance and Completion (OSAC). Recipients must be enrolled at least half-time and are eligible for up to four years of full-time enrollment. Grants are awarded based on financial need, as measured by the Expected Family Contribution from the FAFSA and the other federal financial aid a student is expected to receive. For the 2019-20 school year, the EFC limit is $3,500 and maximum grant amounts are $2,700 for community college students and $3,300 for public university and private college (independent) students. For the 2019-20 school year, the agency projects that 38% of the students receiving grants will be community college students, just less than 54% will be public four-year institution students, and the remaining 8% will be at independent schools. This is a significant change from the previous school year when the agency estimates just over 50% for community college students.

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 2019-21 biennium, so, in the future, without any changes, all earnings will be designated for the OOG. 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, but since then the amount has grown significantly to $40 million for 2019-21 compared to $20.7 million for 2017-19. Other Funds revenues include JOBs Plus related funds set aside for Temporary Assistance to Needy Families (TANF) recipients for education-related purposes that remain unused.

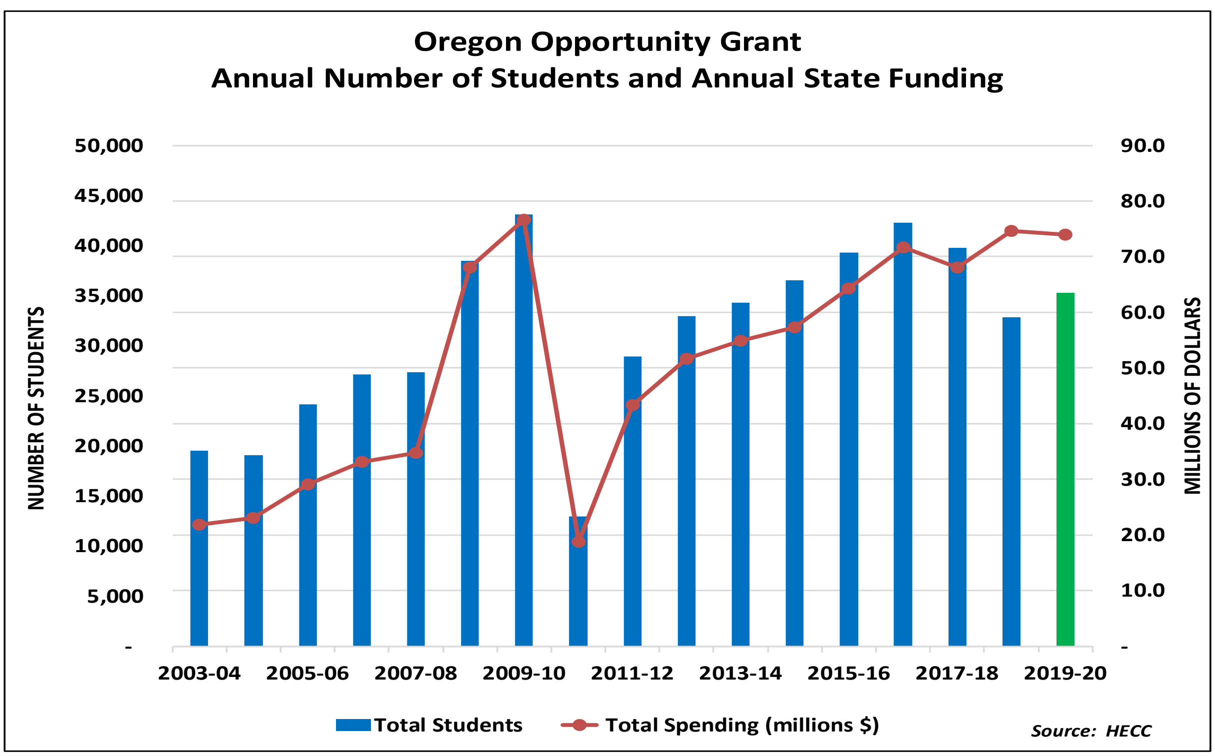
SB 1528 (2018) established a tax credit auction for contributions made to the OOG program similar to a program for the Oregon Film and Video Office. The first annual auction was in August 2018 and further auctions are authorized. Changes in the federal tax code in 2018 may make these auctions less viable in the future. The first auction generated just over $14 million for the program and this amount is factored into the funding level for the program for 2019-21.

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 $3.1 million for the program early in the 2017 legislative session.

Budget Environment

The OOG program has changed over time in its awarding of grants. From 2001-02 to 2007-08, maximum grants were based on 11% of cost of attendance and income limits were based on a percent of median income. Beginning in 2008-09, the Shared Responsibility Model was implemented where grants awarded were intended 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 was 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. There was never sufficient funding to fully implement the Shared Responsibility Model so maximum grant awards and other actions were established to stay within budgeted amounts. HB 2407 (2015) made several changes to the OOG program in terms of eligibility and timing of awards. The 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 meets academic standards set by the Commission and is making progress toward completion of a degree or a certificate. Between 2016 and 2018, the maximum grants were the same for community colleges and public universities, but starting in the 2018-19 school year, the program returned to the two tiers where students at public universities received higher maximum grants than students at community colleges based on the estimated cost of attendance.

The following chart shows the total annual spending, as well as the total number of students served estimated for the 2019-20 school year. 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 the 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 demand. Much less funding remained for the second year of that biennium. Average grant size across all school types has also increased – in 2007-09 it was $1,560 and for the 2018-19 school year it is expected to be $1,774 for community college students and $2,766 for public university students. The program only serves a portion of the estimated eligible applicants – for 2014-15 only 27% of the estimated eligible applicants were served while for 2017-18 that percentage was estimated at 44%.



Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $164.2 million total funds is an increase of $18.1 million, or 12.4%, over the 2017-19 legislatively approved budget. The funding mix for the program has changed significantly based on the availability of investment earnings from the Education Stability Fund, estimated at $40 million Lottery Funds, and the amount for the first tax credit auction (2018) of $14.7 million Other Funds. This offset the need for General Fund – the 2019-21 General Fund of $109.5 million compared to $125.2 million for 2017-19. The OOG budget only assumes the proceeds from the first auction of tax credits and there could be proceeds available during 2019-21 from one or two more auctions. It should be noted that with the changes made in the federal tax code in 2018, these auctions may not be as advantageous as the first sale. The investment earnings on the Education Stability Fund (Lottery Funds resources) for this program can be volatile and must be monitored closely. The first quarterly economic and revenue forecast (September 2019) after the 2019 session already is showing lower investment earnings than what the budget is based on. Based on the 2019-21 budgeted amount, the agency estimates 35,286 recipients should receive grants for the 2019-21 school year and the average grant amount is estimated at $1,841 for community colleges and $2,251 for public universities and independent post-secondary institutions.

TEACHER STANDARDS AND PRACTICES COMMISSION

Analyst: Wilson

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	200,000	1,700,000	--	--
Other Funds	6,576,291	9,106,410	9,063,665	9,306,571
Total Funds	**$6,776,291**	**$10,806,410**	**$9,063,665**	**$9,306,571**
Positions	27	27	23	26
FTE	24.88	25.71	22.50	24.75

Overview

The Teacher Standards and Practices Commission (TSPC) is composed of 17 members who are appointed by the Governor and confirmed by the Senate. TSPC has four 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.
- Provide financial assistance to teachers working on their National Board Certification, a new program started in 2017-19 with a one-time $1.7 million General Fund appropriation. The agency has not used all of the appropriation and the program is continued in 2019-21 with the unused funds.

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

Revenue Sources and Relationships

License fees paid by regulated educators make up most fee revenue, 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. 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. On an annual basis, the amount actually decreased from $33 to $28 for five-year licenses. A fee increase was approved by the Commission in June 2019 in order to maintain a sufficient ending balance and working capital.

Budget Environment

The Commission has recovered from a period of falling revenues due to the decrease in the number of teachers applying and renewing their licenses during the recession. The Commission eliminated positions, left positions vacant, reduced other spending, and used its ending balance resources. Consequences of these actions were backlogs in investigations, processing of licenses, and responding to emails and phone calls. Backlogs continue today but have improved as staff resources were increased over the past few biennia.

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. 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. Since the audit, the Commission has improved its performance by adding staff, improving processes, and rolling out a new computerized licensing system. Backlogs in licensing and investigations still exist but have improved.

SB 155 (2019) expands sexual misconduct reporting requirements for school districts and brings Oregon into compliance with the federal Every Student Succeeds Act. The bill removes the requirement that a school district must complete an investigation of complaints of licensed educators resulting in increased investigation work for the Commission. A hard deadline is established requiring TSPC to complete an investigation with 90 days, significantly below the current pace of completing investigations. Three investigator positions were established to reflect the need for meeting the increased investigation workload and the time limit.

There is still a degree of uncertainty of the impact on the Commission's revenues from the changes in the structure of the licensing system. Longer terms for licensing (e.g., five-year licenses) could have a negative impact on revenues as fewer licenses are renewed each year. The 2019-21 biennium will be the first full biennium that the impact will be experienced. Other changes will also add to the revenue uncertainty including exempting some educators (e.g. National Board Certification) from the fees.

Legislatively Adopted Budget

The operating budget for the Teacher Standards and Practices Commission (TSPC) for 2019-21 of $9,306,571 Other Funds is $200,161 (or 2.2%) greater than the 2017-19 operating budget. The budget includes 26 positions (24.75 FTE). The budget establishes one new permanent position to assist in approving educator preparation programs at post-secondary institutions in the state and eliminates an information systems position no longer required. A licensing position is transferred to the investigations unit to address the Commission's backlogs in investigations. Three new permanent positions (2.25 FTE) are added to meet the requirements of SB 155 which establishes hard deadlines for investigations of abuse by licensed educators. This budgeted amount also assumes a $150,000 reduction in Services and Supplies expenditures.

It should be noted that the 2017-19 budget also included a one-time $1.7 million General Fund appropriation to capitalize an on-going account to provide financial assistance to teachers in offsetting the costs of applying and working on receiving the National Board Certification. This appropriation was assumed to be available for multiple biennia. Other Funds limitation of $1,624,742 is included as part of the 2019-21 budget for awards from this account. It is very likely that this amount exceeds what will actually be paid out during the biennium, but the amount required is difficult to estimate.

This 2019-21 budget assumes the Commission will need to increase fees during the 2019-21 biennium. Based on the need to maintain sufficient working capital and ending balance as well as the budgetary impact of SB 155, the Commission approved an increase in fees at its June 2019 meeting. The basic fee increases from $140 to $182, a 30% increase.

HUMAN SERVICES

PROGRAM AREA

COMMISSION FOR THE BLIND

Analyst: To

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,690,478	3,535,937	4,331,786	6,634,036
Other Funds	1,035,705	1,482,049	1,567,683	1,560,451
Federal Funds	14,088,099	17,609,075	16,071,581	15,955,857
Total Funds	**$18,814,282**	**$22,627,061**	**$21,971,050**	**$24,150,344**
Positions	68	68	68	68
FTE	62.53	62.53	62.53	66.00

Overview

The Commission for the Blind's (OCB) 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 2019-21 legislatively adopted budget is $24.1 million total funds and 68 positions (66.00 FTE). The agency is organized into the following five program areas:

- Rehabilitation Services ($13.6 million, 27.25 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 ($2.7 million, 9.00 FTE) is a comprehensive 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 ($2 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 and in 2019 under HB 3431.
- Independent Living Services ($1.8 million, 7.75 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 ($4 million, 17.00 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 to receive federal funding. As part of this reform, beginning with the 2017-19 biennium, the Administration Services unit houses support staff for the Rehabilitation Services Unit as well as performing 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 $6.6 million General Fund (28%), $1.5 million Other Funds (6%), and $16 million Federal Funds (66%).

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 can only be expended for the purposes and in the manner described in federal law and regulations or in grant agreements and require a state contribution in the form of matching grants. Federal Funds revenue projections for the 2019-21 biennium are based on a 1.9% annual inflation on the Vocational Rehabilitation grant award. Supported Employment, Independent Living, and Older Blind programs grants are projected to remain flat, as there have been no increases in federal funding over the past few federal fiscal years.

The majority of the Commission's 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 amended 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%). Until the 2017-19 biennium, 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%. Beginning in the 2017-19, the Commission's 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. 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 moved from a direct grant to an agreement with DHS to comply with rule changes that allow only one grantee per state. Supported Employment as well as 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 administers the Federal Randolph Sheppard Vending Stand Act and Oregon's vending program, contracting 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. Licensed blind managers pay 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 2019, the BE program has 16 individuals operating over 500 food service and vending machines sites throughout Oregon. In 2017, these locations generated approximately $3.2 million in sales. The average income per manager was approximately $53,370. 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 2019-21 adopted budget meets the federal matching funds and maintenance of effort requirements.

At present, Other Funds revenue sources for the 2019-21 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 2019-21 beginning balance of approximately $362,887. 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 supplement General Fund support.

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 2018 was 653, which was up 1.08% from the 2017 caseload of 646. The Older Blind program served 851 clients in 2018. 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. The Workforce Innovation and Opportunity Act requires that the Commission reserve and expend 15% of the federal award for pre-employment transition services to in-school youth. This has resulted in a strain on the remainder of the grant resources to maintain the level of services provided to all other eligible clients of the VR program who need services, training, and support to obtain and maintain employment. In addition, new legislation requires the Commission to secure employment in community-based settings at or above minimum wage. This change in the direction of services has increased the cost per case.

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 $19,686 for foster home care to $101,040 for nursing home care per individual per year. In 2015, the average caseload cost was $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. Starting in 2018, the Commission does not directly administer the Independent Living grant for individuals under the age of 55. Under WIOA, Congress moved the Independent Living program for individuals under the age of 55 from U.S. Department of Education to the U.S. Department of Health and Human Services, Administration for Community Living. The change also limited grantees to one per state. In Oregon, the designated state entity is the Department of Human Services (DHS). The

Commission has since developed an interagency agreement with DHS to continue the program as a service provider. The agreement requires that the Commission provides the state match required for the portion of the grant that is distributed to the Commission under the agreement.

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 2019-21 legislatively adopted budget is projected to provide sufficient resources and staff for the Commission to remain outside the Order of Selection.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget of $24.1 million total funds, 68 positions (66.00 FTE) reflects an increase in General Fund and Other Funds, and a decrease in Federal Funds. The decrease in federal revenues reflects the phase out of $766,416 in re-allotment that the Commission was successful in securing from the U.S. Department of Education to cover the increase in VR client special payments during the 2017-19 biennium. If this federal funding opportunity is available during the 2019-21 biennium, the Commission will request a supplement to the Federal Fiscal Year award.

The adopted budget includes a one-time appropriation of $2,405,350 General Fund and the establishment of 1 position (1.00 FTE) to support the migration of the agency's case management system to a new vendor because the current provider is planning to exit the market after December 31, 2020. In planning this project, the Commission has been working closely with the Legislative Fiscal Office (LFO) and the Office of the State Chief Information Office (OSCIO) and has received Stage Gate 1 endorsement (July 2018) and State Gate 2 endorsement (January 2019). The system is mission critical to OCB operations because it is used to satisfy federal reporting requirements and must be replaced as the current system software vendor has notified OCB that it will discontinue software maintenance and support as of December 31, 2020. Because the project is in the planning phase of its lifecycle, the 2019-21 adopted budget includes a budget note directing the Commission to:

- Continue to work closely with and regularly report project status to the Office of the State Chief Information Office (OSCIO) and LFO throughout the lifecycle of the project.
- Follow the Joint State CIO/LFO Stage Gate Review Process.
- Obtain and retain qualified project management and business analyst services with experience in planning and managing projects of this type, scope, and magnitude.
- Update the Business Case and foundational project management documents as required.
- Work with OSCIO to acquire Independent Quality Management Services as required to:
  - Conduct an initial and ongoing risk assessment(s).
  - Perform quality control (QC) reviews on the Business Case, solution vendor procurement documents, and foundational project management documents as appropriate.
  - Perform ongoing, independent quality management services as directed by OSCIO.
- Submit the updated Business Case, procurement and project management documents, initial risk assessment, and QC reviews to OSCIO and LFO for Stage Gate Review.
- Report back to the Legislature on project status during the 2020 legislative session and/or to interim legislative committees as required.
- Utilize the Office of the State CIO's Enterprise Project and Portfolio Management system for all project review, approval, and project status and closeout reporting activities throughout the life of the project.

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

OREGON HEALTH AUTHORITY

Analyst: MacDonald

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,152,357,931	2,162,870,267	3,176,978,132	2,719,376,308
Lottery Funds	11,113,255	12,498,909	13,035,809	17,093,071
Other Funds	5,683,251,462	7,794,873,473	6,872,981,111	7,645,454,433
Other Funds (NL)	212,475,263	40,000,000	40,000,000	40,000,000
Federal Funds	11,189,125,905	11,714,407,633	11,608,886,871	12,663,030,976
Federal Funds (NL)	85,956,641	106,457,226	106,196,261	106,196,261
Total Funds	**$19,334,280,457**	**$21,831,107,508**	**$21,818,078,184**	**$23,191,151,049**
Positions	4,450	4,200	4,121	4,290
FTE	4,394.40	4,281.80	4,096.47	4,243.01

For comparison purposes, the 2019-21 Current Service Level column values for OHA and DHS are from the 2019-21 Governor's Budget; this includes adjustments resulting from the Fall 2018 caseload forecasts 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 the state's purchasing power and contain rising health care costs. The nine-member, citizen-led Oregon Health Policy Board serves as the agency's policy-making and oversight body.

OHA's mission is to help people and communities achieve optimum physical, mental, and social well-being through partnerships, prevention, and access to quality, affordable health care. Known as the *triple aim*, the agency has three goals to transform the health care system in Oregon: improve the lifelong health of Oregonians; increase the quality, reliability, and availability of health care; and lower or contain the cost of health care so it is affordable to everyone. OHA is the largest health care purchaser for the state, purchasing health care for approximately 1.3 million Medicaid beneficiaries, state employees, and local educators. The agency's programs also support treatment and other services to persons with mental illness and substance use disorder; provide 24-hour psychiatric and restorative care to adults committed to the Oregon State Hospital; and promote health outcomes through the state's public health system.

With a 2019-21 legislatively adopted budget of $23.19 billion, OHA is the largest budget within the Human Services program area, making up 65% of total program area expenditures. Compared to the overall state budget, OHA comprises 27% of the state's total funds budget and 12% of the state's General Fund budget. Although its portion of the statewide budget is large, the agency's 4,290 budgeted positions, more than half of which are located in the Oregon State Hospital, represent only 10% of the statewide total. The agency's relatively low position count compared to the size of its budget reflects the nature of the agency's expenditures—nearly 84% of OHA's funding is designated as special payments to non-state government organizations for carrying out the health care services connected to the triple aim.

The budget is organized into the following nine program areas:

- ***Health Systems Division*** – Includes Medicaid programs, consisting primarily of the Oregon Health Plan (OHP), and non-Medicaid behavioral health programs.

- ***Health Policy and Analytics*** – Provides policy support, technical assistance, and access to health information statistics and tools to organizations and providers participating in Oregon's health system transformation.

- ***Public Employees' Benefit Board* (PEBB)** – Administers health insurance coverage for state government and university employees.

- ***Oregon Educators Benefit Board (OEBB)*** – Administers health insurance for school districts, education service districts, and community colleges.

- ***Public Health Division*** – Provides various services to protect and promote the health of all Oregonians and their communities.

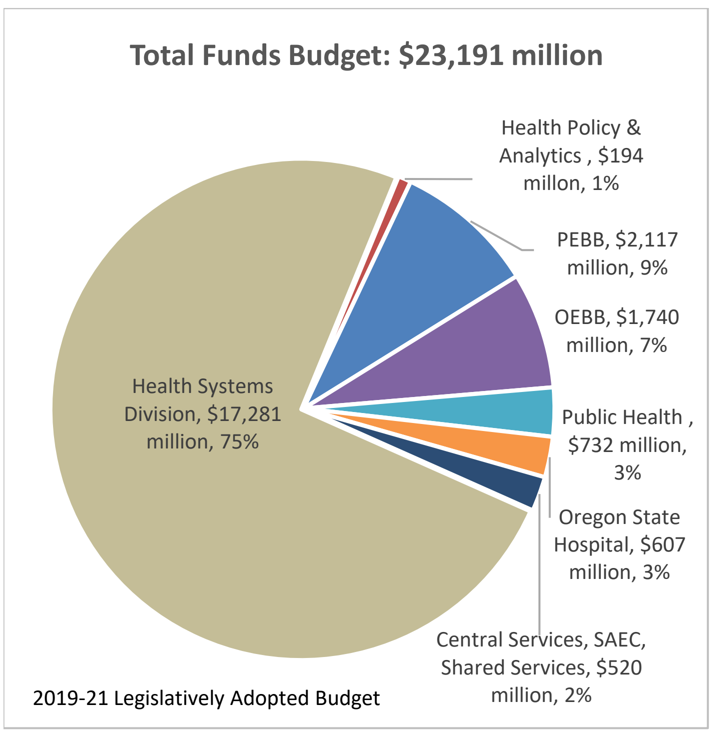
- ***Oregon State Hospital*** – Provides 24-hour psychiatric care for adults from all 36 counties at the Salem and Junction City campuses.

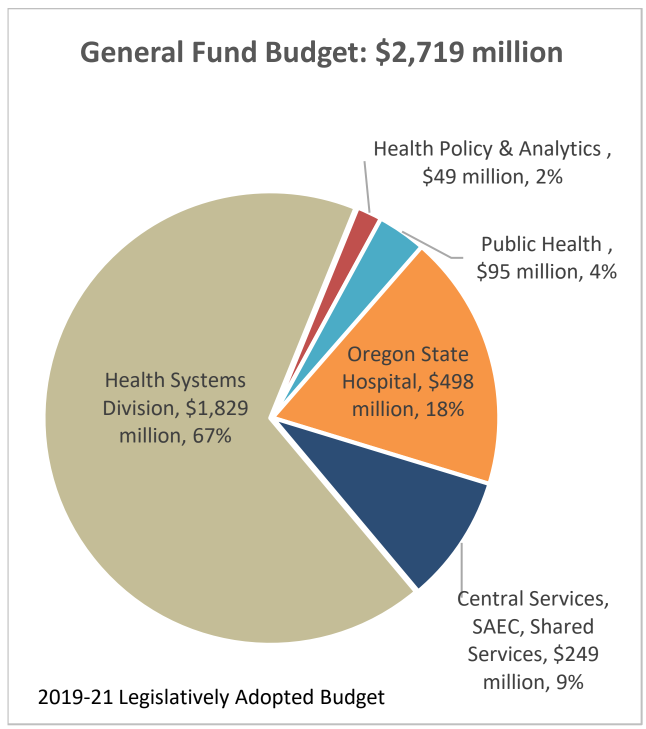
- ***Central Services*** – Responsible for agency leadership and business support functions.

- ***State Assessments and Enterprise-wide Costs (SAEC)*** – Supports state government assessments, usage charges, agency-wide costs (e.g. rent), and debt service payments.

- ***Shared Services*** – Supports certain business functions for both OHA and the Department of Human Services.

The Health Systems Division comprises the largest share of OHA's budget in terms of both total funds (75%) and General Fund (67%). However, the share of the agency's total funds and General Fund differs for most other OHA programs. PEBB and OEBB, for instance, each have relatively large total funds budgets but are not directly appropriated General Fund dollars. Conversely, the Oregon State Hospital represents a relatively small portion of the total funds budget (3%) but consumes the second highest percentage (18%) of the agency's General Fund budget. The following charts compare the total funds and General Fund budgets for each program area:





<u>Revenue Sources and Relationships</u>

OHA's 2019-21 legislatively adopted budget includes $2.72 billion General Fund, of which more than two-thirds supports OHP and is used as match for federal Medicaid dollars. Large portions of the agency's General Fund also support the Oregon State Hospital and community mental health programs, neither of which rely on federal matching dollars.

The agency's budget includes $17.1 million Lottery Funds from two distinct distributions. First, the agency receives a statutory distribution of 1% of net state lottery proceeds to support prevention and treatment services for gambling addiction, which amounts to $14.6 million in the 2019-21 legislatively adopted budget. Second, the budget now includes $2.5 million to support behavioral health services for veterans. This funding represents a portion of the lottery proceeds that are constitutionally dedicated to support veterans' services pursuant to Ballot Measure 96 (2016).

Other Funds revenue supports 33% of OHA's budget. This revenue comes from a variety of sources, including tobacco taxes, Tobacco Master Settlement Agreement funds, health care provider assessments, the Oregon Health and Science University (OHSU) intergovernmental transfer agreement, recreational marijuana taxes, beer and wine taxes, fees, estate collections, self-insurance payments, health care premiums, third-party recoveries, pharmaceutical rebates, and charges for services. Approximately 84% of the tobacco tax revenue the agency receives is statutorily dedicated to support OHP, 12% for community mental health and 4% for tobacco use prevention and cessation. Tobacco tax revenue, however, is a declining revenue source. As a result, General Fund must consistently backfill lost revenue in OHP to maintain support for eligible individuals who are guaranteed services under federal Medicaid law.

Since 2003, provider assessments have been a prominent source of OHA's Other Funds revenue to leverage federal Medicaid dollars and support OHP. In 2017-19, these assessments were restructured through the adoption of HB 2391 (2017), which temporarily established a 0.7% tax paid by diagnostic related group (DRG) hospitals through June 30, 2019; implemented an assessment on Type A and Type B rural hospitals; exempted OHSU from the hospital assessment program and created a separate intergovernmental transfer (IGT) agreement; and established a new 1.5% premium assessment on managed care and other health care insurance plans through December 31, 2019.

The sunsets included in HB 2391 (2017) and other OHP budget challenges prompted the Governor to establish a Medicaid financing workgroup composed of members from state government and health care stakeholders to recommend a long-term plan to fund the program. The workgroup met throughout the spring and summer of 2018 and developed recommendations that would ultimately be implemented through the adoption of HB 2010 in the 2019 legislative session. The bill reinstates the insurance premium assessment at 2%, expands the premium assessment to include premiums on stop-loss insurance policies, and extends the sunset dates for both the hospital and insurance premium assessments over multi-biennia periods. Also based on the workgroup's recommendations, the 2019-21 budget includes adjustments related to increasing the fully reimbursable DRG assessment from 5.3% to 6% as of January 1, 2020, which OHA is able to do administratively. Similarly, the budget also includes changes to increase the rural hospital assessment from 4% to 5.5% as of January 1, 2020. This change, however, was not proposed by the workgroup.

As part of the exemption of OHSU from the hospital assessment program in 2017-19, the OHSU IGT was established pursuant to OHSU's status as a public academic health center. Instead of paying the hospital assessment, OHSU contributes funding through the IGT, which results in a higher level of Other Funds revenue and corresponding federal matching dollars available for OHP. State government benefits from the agreement as a result of less General Fund needed to support OHP expenses and OHSU benefits through an enhanced payment model known as Qualified Directed Payments, which is predicated on OHSU maintaining access to high quality academic health center services for OHP members. As discussed in further detail below, the 2019-21 budget increases the IGT contribution and includes changes reflecting the IGT's full biennial roll-out and program growth.

Federal Funds support 55%, or $12.66 billion, of OHA expenditures in the 2019-21 legislatively adopted budget. Of this amount, $11.96 billion supports Medicaid programs in the Health Systems Division and is linked to a combined $4.53 billion of General Fund and Other Funds revenue used to satisfy federal Medicaid match requirements. Federal Funds also support significant portions of the budgets for the Public Health and Health Policy and Analytics Divisions. In Public Health, the budget includes Federal Funds expenditure limitation of $276.4 million, which reflects myriad federal grant programs dedicated for specific public health purposes and

Medicaid match for contraceptive care and nurse home visiting programs. Federal Funds support $114.2 million, or 60%, of the Health Policy and Analytics Division's budget. This revenue includes federal Medicaid administrative funds (matched with General Fund) and multiple federal grants, including grants for health information technology and primary care.

In addition to the Other Funds and Federal Funds amounts discussed above, OHA's budget includes certain expenditures designated as Nonlimited, which can be increased administratively if the revenue is available. Nearly all of these expenditures reflect Nonlimited Other Funds of $40 million and Nonlimited Federal Funds of $102.7 million to support the Women, Infants and Children (WIC) program administered by the Public Health Division. The revenue to support these expenditures is available from rebates from manufacturers of infant formula provided to the state's WIC participants and from federal payments to support program costs. The agency's budget also includes Nonlimited Federal Funds of $3.5 million to support debt service payments.

Budget Environment

Given the broad range of services provided and various sources of funding, OHA operates within a complex and dynamic budget environment. Demographics and economics, federal policy, health care cost inflation and utilization, and state policies and politics 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 and demand for OHA services. The health of the economy also has an important impact on this budget. Typically, when the economy is poor, demand for OHA services increases and program caseloads grow. Oregon's economy is also linked to the Federal Medical Assistance Percentage (FMAP), which is the federal Medicaid matching rate the state receives to support OHP and other Medicaid caseloads. When Oregon's per capita personal income increases relative to the national average, Oregon's FMAP decreases, meaning additional state funds are needed to support the same level of Medicaid services. Likewise, when Oregon's per capita personal income decreases compared to the national average, Oregon's FMAP increases, thereby saving state dollars.

- ***Federal Policy*** – The federal revenue OHA receives is tied to a significant body of federal law and 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 federal policies are appropriately carried out and information management systems 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 typically result in the loss of federal revenue and might jeopardize the state's ability to meet federal match or MOE requirements.

- ***Health Care Inflation and Utilization*** – The largest share of OHA's budget is medical costs. Consistent with the 2019-21 legislatively adopted budget, OHA uses $20.35 billion of its $23.19 billion total funds budget to provide comprehensive health care coverage through OHP, PEBB, and OEBB. Health care inflation rates have typically outpaced general economic inflation rates, as well as the rate of state revenue growth. As a result, health care has consumed a larger share of the total state budget. To help contain costs and create more predictable budget environments, the state adopted an approach starting in 2012 to cap health care cost increases for OHP at two percentage points below the national trend, which resulted in a growth cap of 3.4% per member per year. Although the national health care cost trend has fluctuated since that time, the state has maintained the annual 3.4% cap and extended it to health care costs in the PEBB and OEBB budgets.

  Individuals' utilization of health care services and the way the state pays for those services are also significant factors in OHA's budget. Historically, health care services were often paid on a fee-for-service basis, such that providers received a fee for each service provided. This model incentivizes providers to deliver more services, with the risk of patients utilizing services that do not help them become healthier. Oregon's coordinated care model has largely moved the state away from this approach by increasing the number of individuals enrolled in coordinated care organizations (CCOs), which focus on primary care and prevention. Instead of receiving payments for each service provided, CCOs receive fixed monthly capitation payments for each enrollee regardless of the quantity of services utilized. By holding CCOs accountable for achieving defined quality health metrics, this model incentivizes CCOs to better manage chronic conditions, reduce unnecessary and costly medical services, such as emergency department visits, and improve health outcomes for enrollees. PEBB and OEBB have also adopted the coordinated care model by increasing member enrollment in patient-centered primary care homes.

- ***Politics*** – As mentioned above, approximately 84% of OHA's budget is earmarked for special payments to health care providers, local governments, insurance companies, and others who deliver services. As a result, numerous organizations, trade associations, labor unions, advocates, and clients have a direct economic interest in this budget. When budget reductions need to be made, or major enhancements are proposed, these groups become actively involved in the surrounding politics.

The factors described above tend to make significant policy changes difficult to adopt. A proposed program change might have a significant fiscal impact, be inconsistent with federal law (or at least require a lengthy federal approval process), or challenge past policy direction and create controversy.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for OHA is $23.19 billion total funds, $2.72 billion General Fund, and 4,290 positions (4,243.01 FTE). The budget represents an increase of 6% total funds and an increase of 26% General Fund from the 2017-19 legislatively approved budget.

The growth in General Fund is largely driven by the level of funding needed to maintain OHP services due to declines in Federal Funds and Other Funds revenues. Changes to the state's FMAP rates result in a cost shift of $445 million from Federal Funds to the General Fund. Likewise, declines in available tobacco tax and Tobacco Master Settlement Agreement revenues result in a net cost shift of $97.8 million from Other Funds to the General Fund to maintain the state's existing level of both Medicaid and non-Medicaid behavioral health services. Additionally, the budget recognizes a shift of $125.1 million to the General Fund as a result of Other Funds revenue being unavailable to support its share of OHP inflationary expenses. The budget incorporates various revenue and cost-savings measures to address these revenue issues. The most significant of these changes includes the reinstatement of the insurance premium assessment at 2% pursuant to HB 2010 (2019), changes to the OHSU IGT, increasing the DRG hospital assessmens from 5.3% to 6%, and increasing the Type A and B rural hospital assessment from 4% to 5.5%.

Outside of revenue adjustments, the budget includes several General Fund savings measures, with the largest being a $10 million OHP non-caseload savings target OHA is expected to achieve through program efficiencies and cost containment efforts. The budget also recognizes vacancy savings in several programs. The growth of health care costs for OHP, PEBB, and OEBB continues to be capped at 3.4% per person per year despite higher projected levels of health care inflationary expenses. All adjustments preserve the existing level of eligibility and benefits in all health care programs and do not result in cuts to other program services or a reduction in agency staff.

The budget makes notable investments in Oregon's behavioral health and public health systems. Examples include $31.6 million General Fund as part of the $50 million statewide behavioral health investment package, $13 million General Fund and related federal matching dollars to increase behavioral health provider rates (includes $3 million from the behavioral health investment package), $10 million General Fund to advance Public Health Modernization, and $2.9 million for a new voluntary universal nurse home visiting program.

The information below includes more detail for each major program area in OHA.

Health Systems Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,429,495,915	1,315,305,253	2,317,851,205	1,828,675,053
Lottery Funds	11,113,255	12,243,339	12,762,588	16,819,909
Other Funds	1,987,538,640	3,574,960,109	2,539,162,810	3,258,771,550
Other Funds (NL)	57,724,836	--	--	--
Federal Funds	10,783,582,209	11,262,021,067	11,138,814,776	12,176,978,066
Total Funds	**$14,269,454,855**	**$16,164,529,768**	**$16,008,591,379**	**$17,281,244,579**
Positions	623	316	297	337
FTE	609.97	458.20	289.63	325.79

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. HSD is comprised of the following budget units: 1) Medicaid; 2) Non-Medicaid Behavioral Health; and 3) Program Support and Administration. HSD Medicaid delivers health services to over one million low-income adults, people with disabilities, children, and pregnant women. Most of these health care services are available under a federal-state partnership in which the federal government shares in a substantial share of the costs. The Non-Medicaid Behavioral Health budget is mostly funded with state revenue and supports critical elements of Oregon's community behavioral health system that serves as the safety net for all Oregonians regardless of health care coverage. This includes support for community mental health and addictions programs for low-income people who do not qualify for Medicaid or for services that do not qualify for Medicaid reimbursement even if the person receiving them is a Medicaid beneficiary. These programs provide a system of comprehensive health services to Oregonians and their families to improve their health status and promote independence. All of the positions in HSD are budgeted within Program Support and Administration, which provides the operational and information technology resources to help the division fulfill its mission.

Health Systems Division Budget
2017-19 vs. 2019-21
in millions

2017-19 Leg. Approved Budget	Medicaid	Non-Medicaid	Program Support & Administration	Total
General Fund	970.2	269.9	75.2	1,315.3
Lottery Funds	0.0	9.1	3.2	12.2
Other Funds	3,414.5	141.1	19.4	3,575.0
Federal Funds	11,028.5	85.7	147.8	11,262.0
Total	**$15,413.2**	**$505.8**	**$245.6**	**$16,164.5**
2019-21 Leg. Adopted Budget				
General Fund	1,427.8	316.3	84.6	1,828.7
Lottery Funds	0.0	13.5	3.3	16.8
Other Funds	3,101.3	136.8	20.7	3,258.8
Federal Funds	11,961.0	96.6	119.4	12,177.0
Total	**$16,490.1**	**$563.2**	**$227.9**	**$17,281.2**

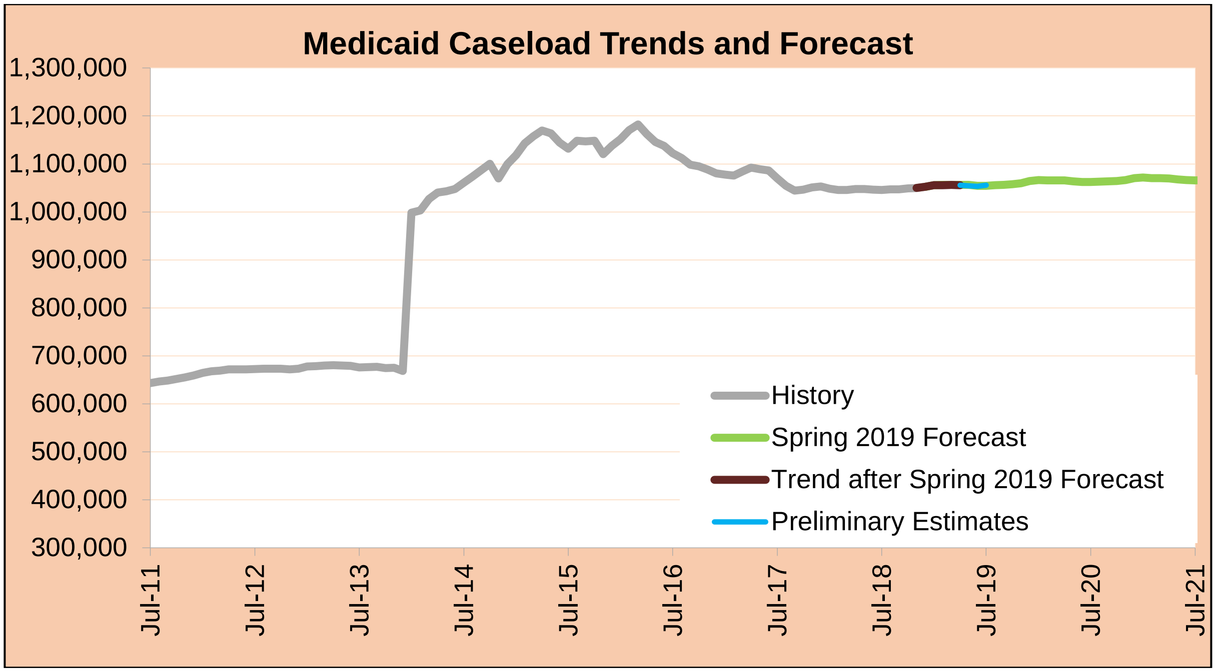
Medicaid Programs

Program Description – Medicaid

Medicaid programs deliver health care services to over one million people in Oregon, primarily through the Oregon Health Plan (OHP), which supports comprehensive health care coverage for low-income adults and children eligible for Medicaid, children eligible under the federal Children's Health Insurance Program (CHIP), and children who would be eligible for Medicaid or CHIP except for their immigration status. This unit also includes Medicaid programs for low-income individuals who do not qualify for OHP's comprehensive level of care but are eligible for more limited Medicaid services based on specific categorical eligibility criteria, such as individuals dually eligible for Medicare and Medicaid. Special payments, primarily to provide medical assistance to clients, represent 100% of this budget.

Oregon's Medicaid programs have experienced significant changes in the last several years. In the 2011-13 biennium, Oregon transformed the way it provides and pays for medical assistance through a new Medicaid health care delivery system managed by coordinated care organizations (CCOs). A CCO is a network of all types of health care providers who agree to work together in local communities to serve OHP members. CCOs focus on prevention; chronic disease management; early intervention; integration of physical, behavioral, and oral health; and the reduction of waste and inefficiency in the health system. OHA compensates CCOs through a global budget model, which represents the total cost of services for which CCOs are held accountable for managing. Starting in 2012, Oregon committed to limiting health care cost growth to 3.4% per member per year in exchange for a total of $1.9 billion in federal Designated State Health Programs (DSHP) matching funds through June 2017 for programs that had not previously received traditional Medicaid support. Oregon's current five-year federal Medicaid demonstration waiver ending in 2022 continues the commitment to contain costs at no more than 3.4% per member per year, but no longer includes federal incentives for doing so.

The state has also made important changes to OHP eligibility and services. Oregon expanded Medicaid in 2014 to all persons under 138% of the federal poverty level, as authorized by the Affordable Care Act (ACA). Approximately 360,000 Oregonians currently have health care coverage as a result of this expansion. Starting in 2017-19, OHP eligibility was expanded through the Cover All Kids program established by SB 558 (2017). This program, which is entirely supported with General Fund, provides OHP coverage to children who are ineligible for Medicaid or CHIP under federal law for the sole reason of their immigration status. Also beginning in 2017-19, state-funded reproductive services were made available to individuals who were only eligible under Medicaid for emergency medical services due to their immigration status. In 2019-21, nearly 1.1 million individuals are forecasted to receive medical assistance through OHP and other Medicaid programs, with approximately 80% of the entire Medicaid population enrolled in CCOs and the remaining 20% in "open card," meaning they can see any provider who accepts Medicaid.



OHP / Non-OHP Services – As mentioned above, there are two broad distinctions regarding the medical assistance programs budgeted under HSD Medicaid. First, ***Oregon Health Plan*** coverage includes medical assistance as part of the state's Medicaid waiver under Title XIX of the Social Security Act, the Children's Health Insurance Program under Title XXI of the Social Security Act, and the state-enacted Cover All Kids program. OHP is largely governed by a Medicaid state plan and waivers to various federal Medicaid regulations. The Medicaid state plan and OHP waivers detail eligibility for the program, the services or benefits offered, and provider reimbursement. These three elements—eligibility, benefits, and reimbursement—are the main cost drivers of the OHP budget. The state 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), which is the federal agency responsible for administering Medicaid. This means policy changes to the plan and waivers, particularly those that would have a significant program or budgetary impact, must be approved by CMS.

Although CHIP functions similar to Medicaid, it is technically not a Medicaid program. The federal government created CHIP in 1997 as an option for states to expand health care services to uninsured children whose families earn too much to qualify for Medicaid but not enough to afford insurance, with the household income eligibility level being up to 300% of the federal poverty level (FPL). One of the key differences between CHIP and Medicaid is how the federal government finances the program. Whereas Medicaid has no pre-set limit for total federal expenditures, federal matching funds for CHIP are capped according to allotments using each state's recent spending experience increased by a growth factor. If a state exhausts its allotment, the state can use carryover funds from the prior allotment (if available) or request CMS to reallocate unused funds from other states. Congress must also act periodically to reauthorize funding for the program. After CHIP funding lapsed for over three months starting in late 2017, many states, including Oregon, had to temporarily use carryover or redistributed funds to maintain CHIP services. Congress subsequently reauthorized federal funding for the program for a 10-year period ending September 30, 2027.

The ***non-OHP*** component of the HSD Medicaid budget includes expenditures for more limited programs, including the Citizen-Alien Waived Emergent Medical program and the Qualified Medicare Beneficiary program. Non-OHP expenditures also include General Fund payments to the federal government to comply with requirements under the Medicare Modernization Act for states to help pay for the costs of Medicare Part D outpatient prescription drug coverage for clients dually eligible for Medicare and Medicaid. The mechanism through which states help finance this coverage is commonly knowns as the "clawback," which is intended to represent most of the expenditures the state would have made had this coverage exclusively remained a Medicaid expense and not transitioned to support from Medicare.

Eligibility – Medicaid is considered an entitlement program 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. If a state wants to reduce eligibility, it must first receive approval from CMS. Prior to Medicaid expansion under the ACA, adults needed to meet specific criteria in addition to income status to be eligible for coverage, such as being pregnant or having a disability. These categorical caseload designations remain after Medicaid expansion; however, for those who do not satisfy one of these designations for enrollment, Medicaid expansion enables adults who would otherwise be eligible to qualify based only on income eligibility.

Another change under the ACA is the determination of income eligibility. Prior to the ACA, income was determined based on a household's income earnings and assets, effectively a calculation of net worth. As a result of the ACA, income eligibility for most Medicaid caseloads is now based on modified adjusted gross income (MAGI), which is a household's adjusted gross income after adjusting for qualifying tax deductions with a few exclusions (or modifications). Eligibility under MAGI does not include an asset test. The switch to MAGI ultimately resulted in CMS rule changes regarding Medicaid beneficiaries' annual eligibility redeterminations that help reduce gaps in coverage while also having meaningful budget implications. Because MAGI is calculated using common taxable income data, CMS now requires states to conduct annual redeterminations for MAGI caseloads by first attempting to use information from available data sources, such as Internal Revenue Service tax records. If eligibility cannot be determined through these means, the state can then request the beneficiary to provide additional information. OHA implemented this process starting with renewals at the end of February 2018. The use of this approach, often referred to as "ex parte" or "passive" renewals, enables more individuals to remain covered by Medicaid without temporarily or permanently dropping off the caseload due to failure to submit a renewal application on time. This change has also resulted in increased budget pressures due to more individuals remaining on the caseload for longer periods of time. A recent example of the impact of this change is with the Parent/Caretaker Relative caseload, which traditionally experienced members frequently exiting and then re-entering the caseload but is now consistently growing each month with fewer exits.

Coverage	Eligibility Description	Income Eligibility (FPL)
Oregon Health Plan (Medicaid & CHIP)	**Children's Medicaid** – children age 0-18 covered eligible for Medicaid based on household income according to age range	100% - 185%
	Children's Health Insurance Program – children age 0-18 ineligible for Medicaid and with household income of up to 300% of FPL	300%
	Affordable Care Act – adults age 19-64 who meet Medicaid's income eligibility requirements and are not eligible under other Medicaid categories	138%
	Foster, Substitute and Adoption Care – children in foster care or adopted by parents who receive adoption assistance and individuals under age 26 who were enrolled in Medicaid and in foster care upon turning age 18; income level is not an eligibility requirement	N/A
	Parent/Caretaker Relative – adults under age 65 with one or more dependent children under age 18 or age 18 and in high school; income eligibility standard does not consistently align with FPL	~38%
	Pregnant Women – pregnant women and their newborns up to age 1	185%
	Aid to the Blind and Disabled – individuals who are blind or have a disability and are eligible for federal Supplemental Security Income (SSI) or Medicaid long-term care (LTC); about 39% of this caseload are also eligible for Medicare; income eligibility standard does not consistently align with FPL	~74% for SSI; ~222% for LTC

	Old Age Assistance – individuals who are age 65 or over and eligible for federal Supplemental Security Income; income eligibility standard does not consistently align with FPL; the majority of this caseload are also eligible for Medicare	~74%
	Breast and Cervical Cancer Treatment – individuals less than age 65, diagnosed as needing treatment for breast or cervical cancer or specific precancerous conditions, and not eligible for other forms of coverage	250%
Oregon Health Plan (non-Medicaid / non-CHIP)	**Cover All Kids** – comprehensive OHP services for children age 0-18 who meet all of the eligibility requirements for Medicaid or CHIP except for citizenship or immigration status	300%
	Citizen Alien Waived Medical – emergency medical services for adults and medical care for pregnant women who meet the eligibility requirements of Medicaid except for citizenship or immigration status	138%
	Medicare Beneficiary – Medicare cost-sharing for premiums and out-of-pocket expenses for individuals dually eligible for Medicare and Medicaid; cost-sharing assistance falls into one of three eligibility categories: Qualified Medicare Beneficiary (100% FPL); Specified Low-Income Medicare Beneficiary (120% FPL); Qualifying Individual (135% FPL)	100% - 135%

Benefits – OHP covers hospital, physician, prescription drug, therapies (e.g. physical, occupational, and speech), durable medical equipment, dental, limited vision services, non-institutional mental health services, drug and alcohol treatment, and certain health-related services (e.g. transportation to medical providers). Clients do not pay premiums or copayments. An important aspect of the benefit package is the "prioritized list of services," which ranks health care conditions and treatment in order of clinical- and cost-effectiveness. The Health Evidence Review Commission, administered by OHA, determines the content and establishes the priority of listed services. Theoretically, the amount of funding available determines the level of covered services. However, in practice, excluding treatments from the bottom of the list is difficult to do and requires approval by CMS, which has historically been reluctant to grant approval.

Provider Reimbursement – Under the coordinated care model, OHA employs global budgets to compensate CCOs for the cost of services and operations. CCO global budgets consist of two components: capitated and non-capitated payments. The capitated portion includes funding for physical, behavioral, and oral health services, and for administration and profit/risk contingency, paid to CCOs on a prospective per member, per month basis according to risk-adjusted rates based on an individual's OHP eligibility status. The non-capitated portion includes maternity case rates paid to CCOs when a pregnant OHP member gives birth and, until the 2020 contract year, payments from the CCO quality incentive pool awarded to CCOs for meeting minimum performance standards. In 2020, funding for the CCO quality incentive pool is being changed to a withhold applied to the capitated payment portion of the global budget.

CCOs have the flexibility to allocate their global budgets to meet the needs of their members and local communities. Notwithstanding forthcoming changes under CCO 2.0 (discussed below), CCOs have been able to choose the payment methodology they use to reimburse their contractual health care providers from their global budgets, including traditional fee-for-service payments or alternative payment methodologies, like value-based payments. Regardless of the payment methodology to providers, CCOs retain the responsibility for managing services and ensuring access to care and quality of care for their members. The process and methodology used to develop the capitation rates is governed by federal and state regulations. CMS requires Oregon's capitation rates to be actuarially sound and to follow applicable actuarial standards.

There are also elements of Oregon's Medicaid programs that continue to be supported through fee-for-service payments to doctors, hospitals, federally qualified health centers, rural health centers, pharmacies, dentists, and other health care providers. These include services provided to individuals who are eligible to be enrolled in a CCO but have opted not to under special exemptions, such as tribal members and those dually-eligible for Medicare and Medicaid, as well as individuals who are not eligible to be enrolled in a CCO, such as the Citizen Alien-Waived Emergency Medical program. There are also specific costs carved-out of the CCO global budget model and reimbursed on a fee-for-service basis for all individuals. Examples include reimbursement for mental health drugs, residential treatment services, and targeted case management.

Revenue Sources and Relationships – Medicaid

Federal Funds account for 73% of the HSD Medicaid budget. This revenue reflects the federal match received to support Medicaid and CHIP services. These match rates, also known as Federal Medical Assistance Percentages (FMAP), are critical elements during the development of OHA's budget. There are three distinct FMAPs for medical services based on Medicaid eligibility:

- ***Non-ACA FMAP (traditional Medicaid)*** – For services provided to adults and children categorically eligible for Medicaid according to criteria in effect prior to the ACA, states receives an FMAP adjusted each federal fiscal year based on a three-year average of the state's per capita personal income compared to the national average. For these caseloads, no state can receive an FMAP less than 50% or more than 83%.

- ***CHIP FMAP*** – Similar to the rate for the traditional Medicaid population, CHIP uses an annually adjusted FMAP based on each state's per capita personal income. However, unlike the FMAP for the non-ACA caseload, CHIP uses an enhanced FMAP based on states paying a 30% smaller share of spending than under Medicaid. For federal fiscal years 2016 through 2019, the ACA further enhanced each state's CHIP FMAP by increasing it by 23 percentage points, with no state's FMAP being allowed to surpass 100%. This increase is being phased-out over federal fiscal years 2020 and 2021.

- ***ACA FMAP*** – As part of the ACA expansion of Medicaid to nondisabled, nonpregnant adults earning less than 138% of the federal poverty level, the federal government reimbursed participating states for 100% of the medical assistance costs for eligible individuals from calendar years 2014 through 2016. Starting in 2017, the ACA FMAP has phased-down each year until it will reach a floor of 90% in calendar year 2020 in accordance with current federal law.

Based on the magnitude of Medicaid expenditures, even small FMAP changes can result in significant costs or savings to the state. OHA's 2019-21 average biennial FMAPs are declining across the board compared to 2017-19. The largest percentage change is with the CHIP FMAP due to the phase-down of the enhanced rate. However, the smaller decreases in the non-ACA and ACA FMAPs are costlier to the state given caseload sizes. Taken together, the decreased FMAPs resulted in a cost shift of $445 million from Federal Funds to the General Fund in 2019-21.

Oregon's FMAPs	2017-19 Average	2019-21 Average	Change	General Fund Cost
Non-ACA caseload	63.33%	61.36%	-1.97%	$166 million
CHIP caseload	97.33%	81.58%	-15.75%	$76 million
ACA caseload	94.00%	90.75%	-3.25%	$203 million
Total General Fund cost:				**$445 million**

Other Funds account for 19% of the HSD Medicaid budget. Sources of this revenue include tobacco taxes, Tobacco Master Settlement Agreement funding, health care provider assessments, the Oregon Health and Science University (OHSU) intergovernmental transfer (IGT) agreement, drug rebates, third-party recoveries, and other miscellaneous sources.

Health care provider assessments are the largest source of Other Funds revenue in HSD. The extent to which OHA is able to leverage provider assessment revenue reduces the amount of General Fund needed to match federal Medicaid dollars. Consistent with the passage of HB 2010 (2019), the 1.5% insurer assessment is reestablished at 2% and expanded to include stop-loss insurance premiums, which contributes $281 million to support OHP costs that otherwise would have required General Fund support. The 2019-21 budget also incorporates adjustments to the diagnostic related group (DRG) and Type A and B rural hospital assessments. First, the 0.7% DRG tax authorized by HB 2391 (2017) expired on July 1, 2019. In its place, the budget increases the fully reimbursable DRG assessment from 5.3% to 6% with an effective date of January 1, 2020. The budget increases the rural hospital assessment from 4% to 5.5% as of January 1, 2020. The Other Funds revenue generated by these changes offset OHP General Fund expenses by a combined $131 million. The January 1, 2020 effective data of the increased DRG hospital assessment coincides with the transition of DRG hospital reimbursements to a qualified directed payment (QDP) model, which is already in place for Type A and B rural hospitals. The QDP model aligns with CMS requirements for all states to phase-out pass-through payments by July 1, 2027 and tie payments to the delivery and utilization of Medicaid services, outcomes, and quality of services delivered.

In 2017-19, OHSU was exempted from the hospital assessment program and the OHSU IGT was established as a separate funding model, which collapsed several Medicaid payments into the new program. The 2019-21 budget includes multiple Other Funds adjustments related to the IGT. These include a $25 million increase to OHSU's IGT contribution, which offsets a like amount of General Fund. Other Funds expenditure limitation is also increased to reflect the full biennial roll-out of the IGT agreement, as well as updated IGT revenue estimates consistent with program growth and the use of on-going IGT revenue initially considered to be contingency revenue during the model's infancy. These changes offset General Fund costs by $116 million.

Budget Environment – Medicaid

Health System Transformation – Historically, three main levers have been used to control Medicaid costs: limiting eligibility, reducing benefits, and cutting provider reimbursement. The other option is to structurally change the health care system in terms of how health care is purchased and delivered. This reflects Oregon's current approach, as initiated through the creation of CCOs and the focus on changing the health system through better health, better care, and lower costs. The critical components of this approach include integrated and coordinated benefits and services; the use of global budgets that grow at a fixed rate (currently 3.4% per member per year); the use of performance metrics to ensure Oregonians receive safe and effective care; local accountability for outcomes and costs; and enough flexibility for CCOs to tailor programs to the unique needs of their communities.

The integration of services into CCO contracts and rates has been an important part of Oregon's health care transformation. The integration of behavioral and physical health was incorporated in the original CCO contracts beginning in 2012. Mental health supported employment and assertive community treatment services were integrated in January 2013, alcohol and drug residential services moved as of July 2013, and non-emergency medical transportation as of October 2015. Dental services were integrated into CCOs by July 2014. Since then, CCOs have evolved in how they provide dental services. Some CCOs continue to contract with dental care organizations (DCOs) or former DCOs, while others have developed their own internal capacity to deliver dental services. For individuals who are not enrolled in a CCO, OHA contracts with seven DCOs to provide dental coverage statewide.

Another important part of Oregon's health system transformation is evaluation of the state's progress toward achieving the triple aim. SB 1580 (2012) created the nine-member Metrics and Scoring Committee responsible for developing annual CCO outcome and quality incentive measures, such as targets for diabetes management, tobacco usage, and childhood immunization status. By achieving some or all of the established measures, CCOs earn funds from the quality incentive pool. The maximum amount available to each CCO from the pool is based on each CCO's number of enrollees and the extent to which the measures are achieved.

2018 QUALITY POOL DISTRIBUTION

CCO	Phase 1 Distribution			Challenge Pool		Total	
	# Measures met (of 17 possible)	Payment earned in Phase 1*	% Quality pool funds earned	# Challenge measures met	$ Challenge pool earned	Total payment (Phase 1 + Challenge pool + MCO tax)	Total % quality pool earned
Advanced Health	14	$ 4,550,457	100%	4	$ 280,684	$ 4,904,712	106.1%
AllCare Health Plan	14	$ 9,944,618	100%	3	$ 572,370	$ 10,677,146	105.7%
Cascade Health Alliance	14	$ 3,760,644	100%	4	$ 247,796	$ 4,069,482	106.6%
Columbia Pacific	10	$ 3,672,158	60%	3	$ 277,617	$ 4,009,924	64.5%
Eastern Oregon	14	$ 12,002,400	100%	2	$ 377,883	$ 12,568,815	103.1%
Health Share of Oregon	15	$ 64,511,211	100%	4	$ 4,394,929	$ 69,955,473	106.8%
Intercommunity Health Network	10	$ 7,724,349	60%	1	$ 208,897	$ 8,054,057	61.6%
Jackson Care Connect	13	$ 5,824,153	100%	3	$ 353,145	$ 6,271,369	106.0%
PacificSource – Central Oregon	11	$ 7,630,948	70%	3	$ 568,132	$ 8,323,940	75.2%
PacificSource – Gorge	15	$ 2,712,920	100%	4	$ 173,714	$ 2,930,593	106.4%
PrimaryHealth of Josephine County	14	$ 1,894,422	100%	3	$ 114,278	$ 2,039,290	106.0%
Trillium	14	$ 19,936,807	100%	4	$ 1,259,421	$ 21,519,014	106.3%
Umpqua Health Alliance	13	$ 5,343,796	100%	3	$ 311,771	$ 5,741,693	105.8%
Willamette Valley Community Health	14	$ 19,810,422	100%	4	$ 1,439,743	$ 21,573,771	107.2%
Yamhill Community Care	13	$ 5,202,039	100%	4	$ 338,994	$ 5,625,414	106.5%
Total		$ 174,521,345			$ 10,919,376	$ 188,264,693	

* Quality pool distribution is based on number of measures met and CCO size (number of members). See page 16 for CCO enrollment.

The quality incentive pool is awarded in two phases. In the first phase, CCOs can earn up to 100% of their quality pool by meeting or exceeding targets required for each incentive measure. Funds remaining after this distribution are then available as part of a "challenge pool" and distributed to CCOs according to their performance on specific challenge pool measures. The 2018 quality pool totaled 4.25% of aggregate CCO monthly payments in that year, resulting in a total pool of over $188 million. For this year, 12 out of the 15 CCOs earned 100% of their phase one quality pool dollars. In addition to the CCO incentive measures, there are also quality measures defined in Oregon's Medicaid waiver that OHA is required to report to CMS. Many of these measures overlap with incentive measures established by the Metrics and Scoring Committee.

CCO 2.0 – To guide the next five years of coordinated care, OHA has worked with the Oregon Health Policy Board (OHPB), policymakers, stakeholders, and OHP members to bring forward new ideas to address the gaps and challenges in Oregon's health care system. This next phase of health care transformation is referred to as "CCO 2.0." OHA's focus on this effort is guided by the following four priorities: 1) improve the behavioral health system; 2) increase value and pay for performance; 3) focus on social determinants of health and health equity; and 4) maintain sustainable cost growth. Through a year-long public process, OHA and OHPB organized CCO 2.0 policy development to align with these four priorities for their inclusion in the CCO contracts beginning January 1, 2020.

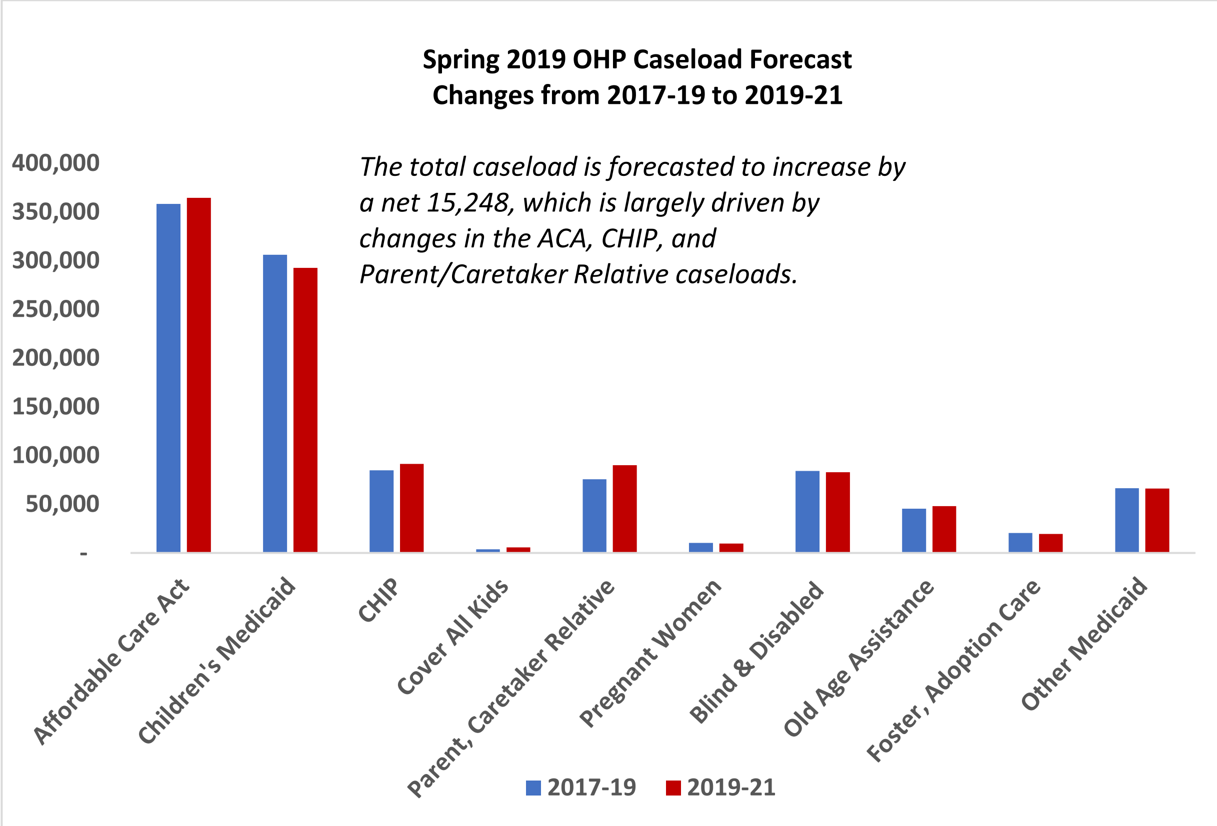
The prioritization of these elements will play an important role in Medicaid spending over the next five years of health care transformation. The move toward requiring CCOs to increase their use of value-based payments, for example, builds off of the quality incentive payment model developed during the first five years of the CCO system and will put upward pressure on achieving both health outcomes and cost savings. Although currently

OHA pays CCOs largely on a capitated basis, many CCO arrangements with providers are based on traditional fee-for-service payments with no financial link to quality or value. OHA has developed a phased-in approach for CCOs to adopt value-based payment models, with no less than 70% of CCO payments to be based on value by 2024. The focus on social determinants of health and equity will also influence the prioritization of CCO investments. OHA will develop strategies to increase CCO spending on the non-clinical activities that impact a person's health and to build the organizational capacity to advance health equity.

A major component for achieving CCO 2.0's objectives is the development of new CCO contracts for the next five-year contract period. In July 2019, OHA announced its intent to award contracts to 15 organizations, which is the same number of CCOs as before but with notable changes. First, two existing CCOs, Primary Health and Willamette Valley Community Health, will no longer provider services, with the latter choosing not to apply for a new contract. Additionally, Trillium and PacificSource Community Solutions have been approved to operate in additional service areas, which results in the choice of a second CCO for enrollees in those regions. Also, four applicants were awarded one-year contracts instead of five-year because they did not fully demonstrate their ability to sufficiently meet the CCO 2.0 criteria. These applicants will be placed on remediation plans and will have one year to show they can meet the higher expectations of CCO 2.0 with technical support from OHA.

Caseload Changes – The OHP budget is based on caseload forecasts and cost-per-case estimates that are projected for each biennium. When caseload forecasts change for the existing biennium, or, in the case of the budget development process, the next biennium, OHA's budget is adjusted to account for the related costs or savings. Unlike commercial insurers, OHP does not have established reserves that can be used if caseloads or costs per case end up being higher than initially forecasted.

The OHP caseload forecast used to determine the 2019-21 legislatively adopted budget was developed in the spring of 2019. This forecast reflects an overall net increase of 15,248 OHP members compared to the 2017-19 forecast at that point in time. Most caseload categories are forecasted to decrease, with the largest being a 13,300 decline in the Children's Medicaid caseload. However, the ACA caseload is expected to increase by approximately 6,000; the CHIP caseload by 6,600; and the Parent/Caretaker Relative caseload by 14,200. The cost of the forecasted increase in the ACA and CHIP populations is largely supported by Federal Funds given the higher FMAP for these caseloads. Conversely, the Parent/Caretaker Relative caseload receives the traditional Medicaid FMAP and results in a much higher cost to the General Fund.



Medical Inflation – Notwithstanding the expiration of federal transformation funding, Oregon has continued its commitment to hold cost growth to 3.4% per member per year in its current federal Medicaid waiver ending June 30, 2022. However, achieving this target has proven difficult in the past two years due to certain cost pressures. The 2018 CCO rates grew by an average of 5.3% compared to the previous year and the 2019 rates grew by 5.1% compared to 2018. Increases in CCO costs for these years were driven by changes in OHP membership resulting in more members with costlier health needs, increasing pharmacy costs, and fluctuations in rural hospital costs. To help offset the cost growth, OHA reduced the 2019 CCO quality incentive pool by 0.75 percentage points as a one-time action. The December 2018 Emergency Board also approved General Fund adjustments to support the cost growth. Looking ahead, OHA is working to address the major cost drivers in the health care system, increase the share of CCO budgets tied to performance, and find opportunities for improved long-term efficiency through the CCO 2.0 process.

Non-Medicaid Behavioral Health Programs

Program Description – Non-Medicaid Behavioral Health

The Non-Medicaid Behavioral Health budget supports prevention and treatment services for Oregonians at risk of developing or who have been diagnosed with a behavioral health disorder. The programs supported by this budget are focused on providing services for people who have a slightly higher income level and do not qualify for OHP, have insurance but not enough to cover the services they need, and for services that are not eligible for Medicaid coverage, such as early outreach and engagement, peer-based recovery, and housing services. The budget unit is comprised of two main components: community mental health services, including suicide prevention, intervention, and post-suicide response, and addiction services, including substance use disorder treatment and problem gambling prevention and treatment. Although these two components might be discussed separately, both intersect in terms of the treatment of persons with co-occurring mental health and substance use disorders and rely on partnerships with the same organizations and providers to develop and administer a community-based continuum of care.

HSD administers contracts and agreements with community mental health programs, non-profit providers, and tribes to develop and administer behavioral health services. Services are delivered in outpatient treatment facilities, residential facilities, schools, hospitals, 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 professionals, psychologists, psychiatrists, psychiatric nurse practitioners, qualified health service providers, other independently licensed providers, certified alcohol and drug counselors, certified gambling addiction counselors, and personal care providers.

State law establishes the framework for non-Medicaid mental health services, which are largely administered by ***community mental health programs (CMHPs)***. Each of Oregon's 36 counties has either a county-run CMHP or contracts with a separate organization to serve as its CMHP. Subject to the availability of funds, CMHPs are required to offer an array of both mental health and addiction services, including, but not limited to, outpatient services, residential care, aftercare for persons released from hospitals, screening and evaluation, crisis stabilization, and medication monitoring. A key role of the CMHP network is to provide pre-commitment services that help prevent the need to admit individuals to the Oregon State Hospital. For individuals and services not covered under OHP, HSD funds a variety of services that include supportive housing and employment opportunities, clinic-based outpatient care, local crisis services, regional acute care facilities, and, as a last resort, referral to the Oregon State Hospital.

Like community mental health services, ***addiction treatment, recovery, and prevention services*** are offered throughout the state by CMHPs, tribes, CCOs, hospitals, residential and non-residential treatment facilities, and other public or private 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 also supports beds for dependent children of adults receiving residential treatment services. Outpatient services include specialized programs that use medication assisted treatment, such as methadone, to assist in the treatment of opioid use disorder. 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 supports gambling addiction prevention and treatment.

Revenue Sources and Relationships – Non-Medicaid Behavioral Health

General Fund comprises $316.3 million, or 56%, of the Non-Medicaid Behavioral Health budget. Nearly all of the General Fund supports mental health services, primarily through the CMHP system. A small amount is budgeted for addiction services and is used as maintenance-of-effort for the state's Temporary Assistance for Needy Families block grant administered by the Department of Human Services. Other Funds revenue represents the next largest share of program support at 24%. The program receives Other Funds revenue from several statutory dedications, including tobacco taxes, marijuana taxes, beer and wine taxes, intoxicated driver prevention funds, driving under the influence of intoxicant funds, and community housing trust funds. The Legislature has also continued to dedicate a share of the state's Tobacco Master Settlement Agreement funds for this purpose. The largest shares of Other Funds revenue are from marijuana taxes and tobacco taxes, which are budgeted at $64.9 million and $43 million, respectively, in the 2019-21 legislatively adopted budget.

The share of the Non-Medicaid budget supported by Other Funds revenue has grown considerably since 2015-17 upon legalization of recreational marijuana and the related marijuana tax revenue dedicated to behavioral health services starting in the 2017-19 budget. Similar to the treatment of available Other Funds revenue in Medicaid, marijuana tax revenue has been used to help offset costs that would otherwise have been paid with General Fund. Under the initial statutory designation, the marijuana tax revenue distribution to OHA was restricted to supporting addiction services. SB 1555 (2018) expanded the use of the revenue to also include support for community mental health services through June 30, 2019. HB 2377 (2019) subsequently made permanent the expanded use of this revenue for both addiction and community mental health services.

Federal Funds revenue represents 17% of the Non-Medicaid budget and is available for specific mental health and addiction treatment services. Most of this revenue is available from three consistent grant awards: the Substance Abuse Prevention Treatment (SAPT) grant, Mental Health Services block grant, and the Projects for Assistance in Transition from Homelessness grant. Federal policy requires 20% of the SAPT block grant be spent on prevention, which is carried out by the Public Health Division.

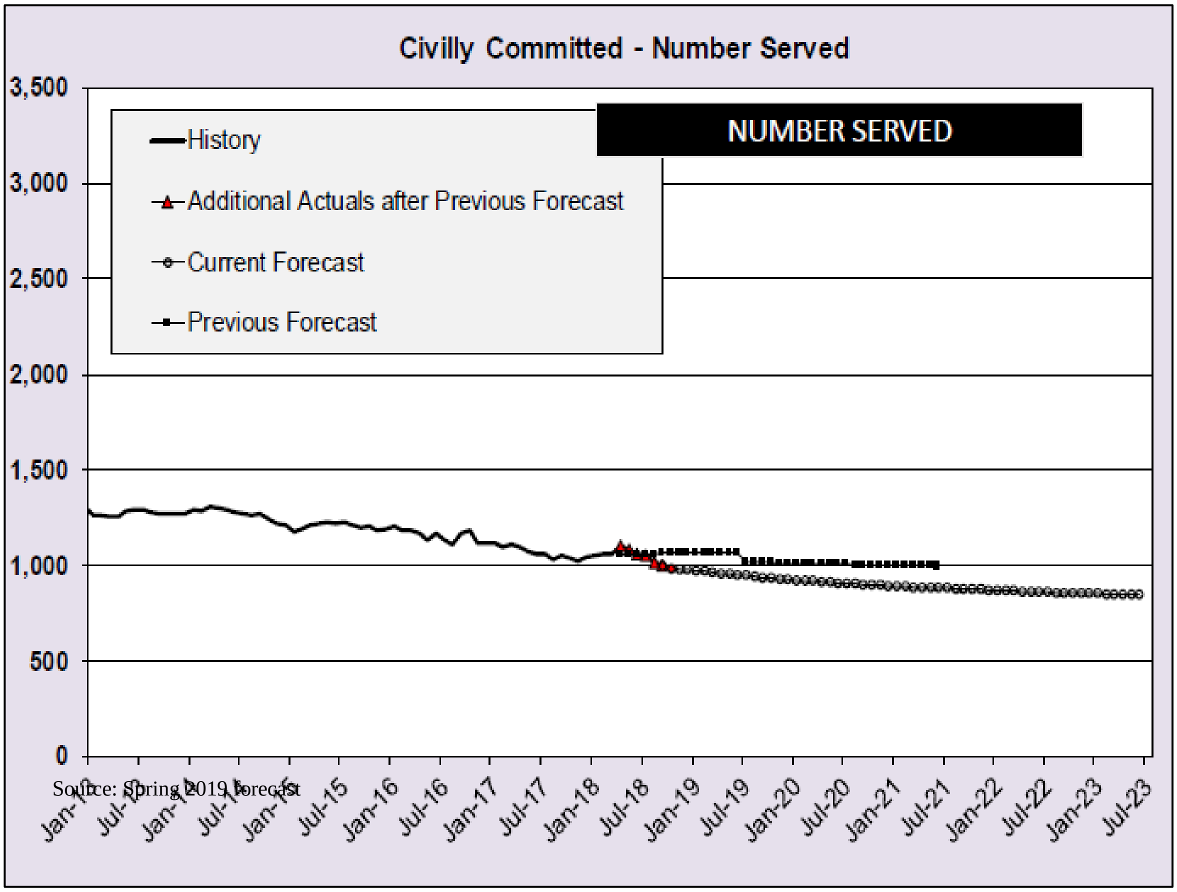
Lottery Funds support non-Medicaid behavioral health services from two distinct lottery distributions. First, state law allocates 1% of net lottery proceeds for the prevention and treatment of gambling addiction, most of which is budgeted in HSD Non-Medicaid. This distribution totals $14.3 million in the 2019-21 legislatively adopted budget. Additionally, starting in 2019-21, the HSD Non-Medicaid budget includes a new source of Lottery Funds for OHA—$2.5 million to support veterans' behavioral health services. This revenue is available from constitutionally-dedicated net lottery proceeds for veterans' services, as approved through Ballot Measure 96 (2016).

Budget Environment – Non-Medicaid Behavioral Health

Having access to a full continuum of care is critical to successfully address behavioral health problems and ensure continuity of care, seamless transitions, ongoing care coordination, and peer support. This understanding of effective treatment for people with mental illness and/or addictions will continue to be a critical factor in budgeting for non-Medicaid behavioral health services. The Oregon Performance Plan (OPP) reflects an integral part of the state's recent approach to delivering these services. In July 2016, OHA finalized the OPP, which is the result of a collaborative process with the U. S. Department of Justice (USDOJ) and calls for Oregon's community mental health services to help 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 to avoid incarceration or unnecessary hospitalization; and 3) expand services that enable adults with mental illness to successfully live in the community, including strengthening housing and peer support services. The data collection period for the OPP ran through June 2019 and the final report is due in January 2020. After a subsequent review of this report and discussions with USDOJ, OHA will have a clearer indication regarding the next steps, if any, USDOJ recommends for the OPP.

Another important consideration of the Non-Medicaid Behavioral Health budget is the nature by which it is developed. Contrary to Medicaid, which federal law requires to support all individuals who are eligible for services and is largely based on caseload levels and the CCO rates process, most of the Non-Medicaid Behavioral Health budget functions similar to a grant program and, with certain exceptions, provides services not guaranteed to clients under state or federal law. With some exceptions, this means the budget process does not, by rule, require funding adjustments commensurate with the number of individuals treated in the community. A subset of the Non-Medicaid caseload is, however, defined as "mandated" as part of the state budgeting process pursuant to Executive Branch budget instructions. In general, *mandated caseloads* are those for which services are required by the federal government, state constitution, or court action. Three mental health caseloads fall under the mandated caseload criteria in terms of court actions: individuals who are civilly committed, found guilty of a crime except for insanity (GEI), or determined to need restorative services to be able to "aid and assist" in their defense in criminal proceedings.

The Non-Medicaid Behavioral Health budget has traditionally been adjusted up or down based on forecasted changes to civil commitment and GEI caseloads, which represent a relatively small portion of the number of individuals served in the community. Until recently, the Aid and Assist population was almost entirely served in the Oregon State Hospital; therefore, adjustments to the Non-Medicaid budget have historically not occurred bases on changes to the Aid and Assist caseload forecast. Starting in 2017-19, OHA's budget includes additional funding to support the treatment of more Aid and Assist individuals in the community to help alleviate capacity challenges at the State Hospital and ensure these individuals are placed in treatment within a federal court-mandated seven-day timeframe. For the other two mandated caseloads, the spring 2019-21 caseload forecast reflects a significant decrease in the civil commitment caseload and a small increase in the GEI population, which resulted in a net decrease to the Non-Medicaid community mental health budget in terms of caseload adjustments. However, due to concerns regarding the potential impact this decrease may have on incentivizing outcomes related to non-mandated community mental health caseloads, the budget report for OHA's 2019-21 legislatively adopted budget includes a budget note instructing OHA to work with stakeholders to evaluate the caseload process and make recommendations to the Legislature, as necessary.



Apart from caseload adjustments, the Legislature has approved significant investments in the Non-Medicaid budget over the past several years. Examples of these investments include:

- ***2013-15 biennium*** – $16.7 million General Fund to increase capacity in the community mental health system; $14.3 million General Fund to expand mental health services for children and young adults; $4.2 million General Fund for supported housing and peer-delivered services; and $1.5 million for community mental health supported employment.

- ***2015-17 biennium*** – $17.6 million General Fund for new programs, including crisis services, jail diversion, rental assistance, peer-delivered services, and the expansion of the Oregon Psychiatric Access Line for Kids; $6.2 million General Fund for regional mental health specialist coordinators; $6 million General Fund for addictions treatment and recovery support; $4.1 million to expand Aid and Assist restoration levels in the community; and $14.3 million General Fund to support the roll-up of program investments made in 2013-15.

- ***2017-19 biennium*** – $17.7 million in unspent tobacco tax revenue from 2015-17 for mobile crisis services, rental assistance, school-based access to behavioral health services, and veterans' behavioral health services; this one-time carryover funding was replaced with on-going General Fund in 2019-21 to maintain these services.

Oregon's implementation of Medicaid expansion also significantly changed the way behavioral health services are funded and delivered. Prior to expansion, the Non-Medicaid Behavioral Health budget paid for many of the services needed by uninsured individuals who did not qualify for Medicaid. After Medicaid expansion, a significant number of these clients qualified for Medicaid and the related treatment costs were subsequently shifted to the Medicaid budget and supported by the enhanced federal match available for the ACA expansion population. This cost shift to Federal Funds was estimated to save $45 million General Fund in the 2013-15 Non-Medicaid budget. This savings, however, was not removed from the Non-Medicaid budget and was instead reinvested for specific purposes in addition to the investments described above. The federal government also did not reduce the level of SAPT or Mental Health Services block grants, which further added capacity for services delivered through the Non-Medicaid budget.

Program Support and Administration

Program Support and Administration provides the support needed to ensure HSD Medicaid and Non-Medicaid programs have the administrative infrastructure, operational resources, and technology necessary to fulfill HSD's mission and statutory requirements. A key goal of the integrated HSD program is to ensure the systematic transformation of health care and that operations are effective, efficient, and fiscally sustainable. The unit organizes its work according to the following two sections:

- ***Business Operations*** – Works with program staff, leadership, community mental health programs, and other agency partners to support nearly all Medicaid and behavioral health programs. It oversees county contracts and grants, intergovernmental agreements with community mental health programs and local mental health authorities, contracts with tribes and tribal organizations, and all other physical, dental, and behavioral health contracts administered by OHA.

- ***Business Systems*** – Includes business-related functions and expenditures for information technology. The supported functions include the Medicaid Management Information System (MMIS), the Oregon Eligibility (ONE) system, Community Outcome Management and Performance Accountability Support System (COMPASS), special projects, and business systems training.

The budget for Program Support and Administration also includes funding for the Actuarial Services Unit and the Office of Program Integrity, which are functionally organized in the Central Services Division and report to OHA's chief financial officer. Prior to mid-2017, Program Support and Administration included the Medicaid eligibility processing center. With the implementation of the ONE Integrated Eligibility and Medicaid Eligibility System, which handles eligibility determinations for OHP and programs in the Department of Human Services (DHS), this function was transferred to DHS.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget for HSD totals $17.28 billion, which represents a 7% increase from the 2017-19 legislatively approved budget. The General Fund budget is $1.83 billion and represents a 39% increase from 2017-19.

The net General Fund increase totals $513.4 million and is largely driven by Medicaid revenue and cost issues. These issues include the decreased availability of federal revenue due to FMAP changes, declines in tobacco tax and Tobacco Master Settlement Agreement revenue, and Medicaid inflationary expenses. The level of General Fund needed to maintain Medicaid services would have been more significant had the Legislature not approved several changes related to provider assessments and the OHSU IGT. These changes include renewing the insurer assessment at 2% through adoption of HB 2010 (2019) for General Fund savings of $281 million; increasing the DRG hospital assessment from 5.3% to 6% for General Fund savings of $98 million; increasing the rural hospital assessment from 4% to 5.5% for General Fund savings of $33 million; and increasing and recognizing the full-biennial roll-out of the OHSU IGT for combined General Fund savings of $141 million.

There are also revenue adjustments in the Non-Medicaid Behavioral Health program resulting in General Fund costs and savings. Similar to the Medicaid program, the budget preserves Non-Medicaid services by backfilling declining tobacco tax revenue and Tobacco Master Settlement Agreement funding with $9.6 million General

Fund. The budget also continues to offset General Fund costs by using increasing marijuana tax revenue dedicated to behavioral health services. Overall, the 2019-21 legislatively adopted budget includes $64.9 million for Non-Medicaid Behavioral Health services that were previously supported with General Fund. This represents an increase of $14.2 million compared to 2017-19.

The HSD budget also includes the following investments:

- ***Behavioral Health Investment Package*** – As part of the $50 million General Fund behavioral health package, the HSD budget includes $31.3 million to support investments related to recommendations from the Children and Youth with Specialized Needs workgroup, as well as other targeted behavioral health investments. In addition to the $31.3 million, $5.7 million General Fund is included in a Special Purpose Appropriation in HB 5050 (2019) for the establishment of behavioral health interdisciplinary assessment teams, as outlined in SB 1.

- ***Behavioral Health Provider Rates*** – $13 million General Fund and related federal matching funds support a net 20% increase in SUD provider rates and, to the extent funds are available, increases in non-residential mental health provider rates. Of the $13 million General Fund, $3 million is from the $50 million behavioral health investment package.

- ***Rental Assistance*** – $4.5 million General Fund provides partial biennium support for individuals living in permanent supportive housing units. This investment corresponds to the planned construction of 500 new permanent supportive housing units funded through the capital construction process. Of the total amount, $2.9 million will be transferred to Oregon Housing and Community Services to support rental assistance payments, with OHA using the remainder to provide supportive services to help individuals successfully live in the new housing units.

- ***Project Nurture*** – $2.5 million General Fund supports a pilot project in up to four counties to provide Substance Use Disorder treatment to pregnant women based on the multi-generational treatment approach of the Project Nurture program. The parameters of the pilot project are defined in SB 2257 (2019).

- ***Behavioral Health IT System*** – $1.5 million General Fund will support the initial stage of OHA's non-Medicaid behavioral health IT system replacement project.

- ***Project ECHO*** – $1 million General Fund will help increase patient access to care for chronic and complex physical and behavioral health issues through the Project ECHO (Extension for Community Healthcare Outcomes) model, which connects primary care providers to specialists through video teleconferencing and mentoring.

- ***Sobering Centers*** – $1 million General Fund supports competitive grants to sobering centers for planning and startup costs, including operational expenses during a center's first five years of operations. This funding is appropriated in HB 5050 (2019) and is one-time in nature.

Health Policy and Analytics

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	22,205,930	45,220,124	48,127,235	48,952,426
Lottery Funds	--	24,000	24,912	24,912
Other Funds	5,803,968	38,582,250	35,186,855	31,034,920
Federal Funds	84,426,282	107,900,414	114,161,855	114,229,882
Total Funds	**$112,436,180**	**$192,726,788**	**$197,500,887**	**$194,242,140**
Positions	137	163	155	163
FTE	130.04	144.84	147.30	149.96

Program Description

The Health Policy and Analytics (HPA) Division provides 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 other programs within OHA. HPA includes the following offices:

- ***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. The office conducts policy analysis and development and provides technical assistance on topics such as primary care workforce development, resource leveraging, and grant development for health system transformation projects.

- ***Office of Health Analytics*** – Collects and statistically analyzes utilization, quality, and financial data to evaluate OHA program performance, provides 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 Clinical Improvement Services*** – Supports the implementation of the coordinated care model in all provider and payer organizations by aligning and integrating clinical resources and policies.

- ***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.

- ***Office of Business Operations*** – Responsible for all of the division's operational functions. The office partners with other Shared Services offices and acts as a liaison to internal and external stakeholders related to operational functions.

- ***Public Employees' Benefits Board (PEBB) / Oregon Educators Benefit Board (OEBB)*** – Develops and administers health care insurance plans and other employment benefits, such as short-term and long-term disability, for employees in state government, universities, and the K-12 system. While these programs are operationally situated in HPA, their budget structures are distinct from HPA and discussed separately.

Revenue Sources and Relationships

HPA is mostly supported by General Fund matched with federal Medicaid administrative dollars. The federal match rates vary depending on the type of work being performed. For example, general Medicaid administrative expenses are matched at 50% whereas expenses related to technology, such as the Medicaid Management Information System, are typically matched at 75% or 90% depending on whether the money is spent on planning, implementation, or operations. In addition to Medicaid funding, HPA receives various federal grants from the U.S.

Department of Health and Human Services that help support a variety of health reform and transformation activities. Of these, the two most prominent are: 1) a Primary Care program grant to help expand access to primary care by recruiting providers and sustaining clinical resources; and 2) Health Information Technology for Economic and Clinical Health (HITECH) funding to provide incentive payments to Oregon hospitals and providers related to health care information technology, including incentives to use electronic health record systems.

The division's Other Funds revenue primarily comes from the Primary Care Provider Loan Repayment program. A significant portion of Other Funds expenditure limitation was previously included in the budget for Common Credentialing Program fees. However, the project to create a new common credentialing system and process was cancelled in July 2018 and the remaining expenditure limitation of $13.8 million was removed in the 2019-21 legislatively adopted budget. HPA also receives funds from various non-federal sources, including the National Association of Chronic Disease Directors, the American Cancer Society, and the Robert Wood Johnson Foundation, as well as fees related to the All Payer All Claims system, Oregon Prescription Drug Program, health care workforce data, ambulatory surgical data, inpatient data, and the Physician (or "J-1") Visa Waiver Program.

<u>Budget Environment</u>
Most of the programs in HPA were transferred from OHA's Central Services budget structure in the 2013-15 biennium. Since then, the demands of the program have continually increased regarding HPA's prominent role in transforming Oregon's health care system. Examples of this growing work include advancing the coordinated care model within the CCO system while also expanding it to PEBB and OEBB; providing the data analytics essential to reducing the long-term cost of health care and addressing unique challenges, such as the opioid epidemic; assessing the impact of potential federal changes to Medicaid policy and financing; and developing the large body of policy work to implement the next five years of health care transformation through CCO 2.0. As a result, HPA continues to face cost pressures in terms of demands on its professional staff and data analytic tools.

HPA's 2019-21 budget attempts to fund the division's immediate program needs through the addition of on-going General Fund resources and permanent staff to support the CCO 2.0 initiative. Given the significant policy and financial management changes under CCO 2.0, HPA's 2017-19 staffing levels were insufficient to continue supporting this initiative long-term. As the elements of CCO 2.0 are put into practice, any additional changes to the model will require further evaluation of HPA's budgetary and staffing constraints. In terms of technology, the All Payer All Claims (APAC) database, which reports health insurance claims, enrollment, premium costs, and provider information, is an example of a system required to help HPA address the rising cost of health care and improve health outcomes. HPA is currently maintaining and, to the extent possible, improving the APAC database and other systems within existing budgetary resources to meet growing needs. However, these systems may eventually require substantive enhancements outside the scope of the division's current budget given the complexity and criticality of these problems.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget for HPA totals $194.2 million, of which $48.9 million is General Fund. The total funds budget represents an increase of 0.8% from the 2017-19 legislatively approved budget and the General Fund budget represents an increase of 8.3%. The modest net increase in the total funds budget is driven by the $13.1 million decrease in Other Funds expenditure limitation to reflect the suspension of the Common Credentialing program and a combined $5.7 million decrease in General Fund and Other/Federal Funds limitation resulting from technical adjustments and position transfers between budget structures in the agency. The budget recognizes anticipated vacancy savings of nearly $0.2 million General Fund but does not include reductions impacting program services. The budget also includes the following investments:

- ***CCO 2.0 Staffing*** – To support HPA's role in the CCO 2.0 initiative, the budget includes $2.2 million, of which $1.3 million is General Fund for eight new positions (6.28 FTE). These positions are responsible for implementing value-based payment models, addressing social determinants of health and equity, and improving cost containment and financial accountability across the system. This adjustment also includes

$150,000 General Fund to process and analyze emergency department discharge abstract records consistent with the passage of SB 23 (2019).

- ***Behavioral Health Homes*** – $0.3 million General Fund and related federal matching dollars support two positions (1.76 FTE) responsible for monitoring, and regulating behavioral health homes, as authorized in SB 23 (2019). This adjustment is funded as part of the $50 million behavioral health investment package.

- ***Mental Health Clinical Advisory Group*** – $0.4 million General Fund and related federal Medicaid matching funds support two positions (2.00 FTE) to assist the ongoing work of the Mental Health Clinical Advisory Group, which is reestablished by SB 183 (2019).

- ***Health Information Exchange Onboarding*** – $0.4 million General Fund supports providers connecting to health information exchange entities. This funding is one-time and represents the amount of unspent funds available in 2017-19 for the same purpose.

Public Employees' Benefit Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,846,192,434	2,046,798,409	2,098,771,459	2,116,601,419
Total Funds	**$1,846,192,434**	**$2,046,798,409**	**$2,098,771,459**	**$2,116,601,419**
Positions	19	19	19	20
FTE	18.50	18.50	18.50	19.50

Program Description
The Public Employees' Benefit Board (PEBB) designs, contracts for, and administers health plans, group insurance policies, and flexible spending accounts for over 139,000 state and university employees and their dependents. PEBB also selects and administers life and disability insurance coverage for eligible state and university employees. The Board consists of eight voting members, of which six are appointed by the Governor and two are ex officio members (the OHA director and HPA director or their designees). The Board also includes two non-voting members from the Legislative Assembly. Program operations are administered by 20 state employees (19.50 FTE), with actuarial and third-party administrator services provided under contract.

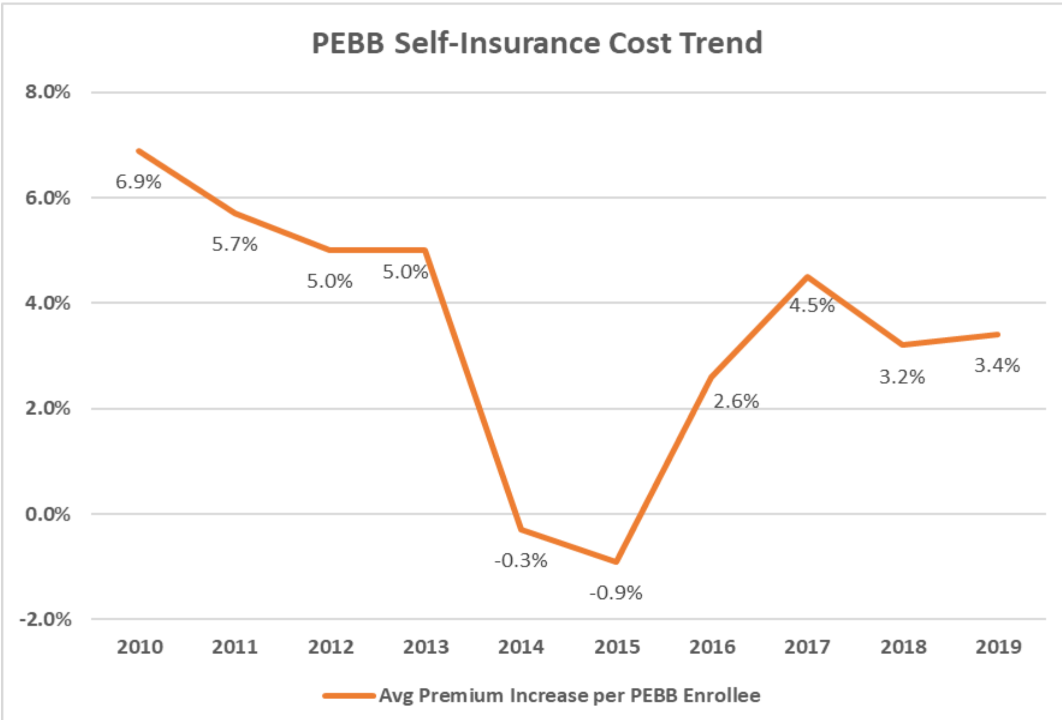
Revenue Sources and Relationships
PEBB is budgeted entirely with Other Funds revenue received from premium payments for all insured individuals. The resources to pay for employee health insurance are budgeted in state agency budgets according to how each agency pays for employee salaries and benefits, be it from the General Fund, Lottery Funds, Other Funds, or Federal Funds. Once the resources are transferred to PEBB, they are accounted for as Other Funds. Approximately 45% of PEBB benefit costs are paid from General Fund in the 2019-21 legislatively adopted budget.

PEBB's operational costs are funded through an administrative 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 for the 2020 plan year is currently at 0.48% and overall administrative expenditures are estimated at $11.2 million for the 2019-21 biennium.

In 2006, PEBB began moving employee coverage toward self-insurance, which gives the Board more flexibility in plan design and cost containment. With Moda's transition to self-insurance in the 2019 plan year, 81% of PEBB members are now enrolled in self-insured medical plans and 19% are enrolled in the remaining fully-insured plan offered by Kaiser. For the fully-insured plan, the premiums PEBB collects are passed through to the insurer who carries the risk on the plan. For self-insured plans, PEBB carries the risk and must maintain a stabilization fund to cover large claims risk. Per HB 2377 (2019), $15 million of the Stabilization Fund is required to be transferred to the General Fund on May 31, 2021.

Budget Environment

The budget pressures for employer-sponsored health care such as PEBB are unique compared to Medicaid coverage. In particular, the cost trend in Oregon's self-insurance market is markedly higher and typically fluctuates between 7% and 8% each year. Despite this, the state began holding PEBB's annual per member cost growth to 3.4% in 2015-17 consistent with the state's cost containment strategy for Medicaid. During the 2017 legislative session, the Legislature adopted SB 1067, which officially required both PEBB and the Oregon Educators Benefit Board (OEBB) to adopt policies and procedures to limit annual per member per month cost increases to the 3.4% threshold. With the exception of 2017, PEBB has held annual cost increases below 3.4% since 2014.



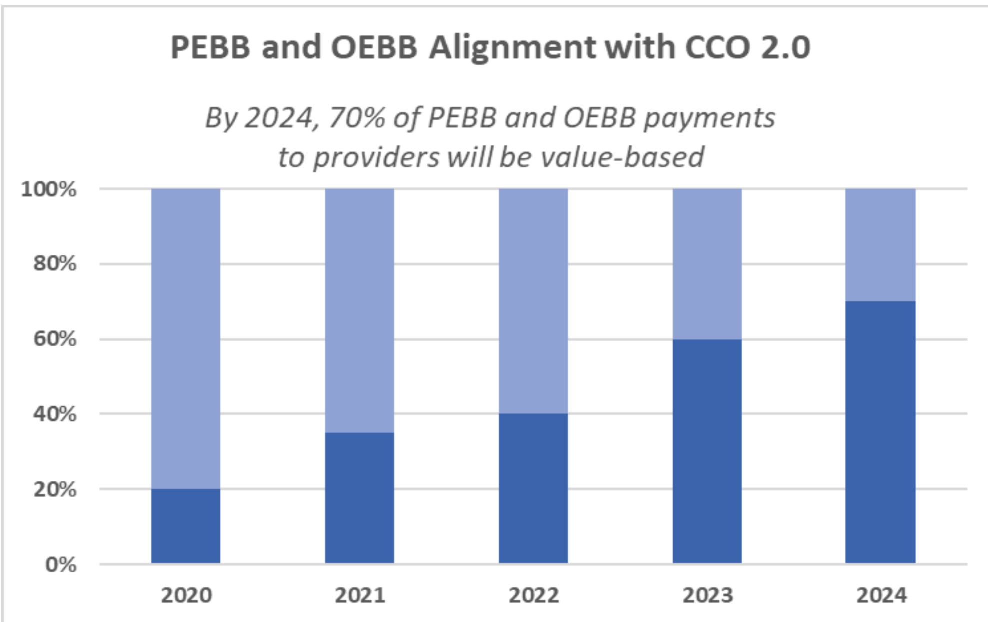
SB 1067 also required both PEBB and OEBB to implement the following other cost containment actions:

- Limit hospital reimbursement rates to 200% of Medicare rates for in-network providers and 185% of Medicare rates for out-of-network providers as of the 2020 plan year for PEBB (starting January 1, 2020) and 2019-20 plan year for OEBB (starting October 1, 2019);
- Eliminate double coverage and opt-out incentive payments for covered employees who have family members also employed by a PEBB or OEBB employer;
- Appoint the PEBB director to also serve as the director of OEBB in a permanent capacity; and
- Form a combined PEBB-OEBB executive committee and develop a plan for the merger of the boards and combine administrative functions and operations.

The adoption of SB 2266 (2019) reversed the elimination of double coverage and opt-out incentive payments before the provision went into effect. Instead, the bill requires PEBB and OEBB to impose a surcharge on an eligible employee who arranges coverage for family members if they have access to coverage as an employee in another plan offered by the boards. This change is not expected to have a material impact on expenditures.

The executive committee elected to merge the two boards through a hybrid approach, which would maintain each board's separate legal structure and governance and create an innovation subgroup and a shared services subgroup to create administrative efficiencies. Staff from both programs have already merged in the areas of financial services, contracts, information technology systems, member services, and communications. These steps have allowed both PEBB and OEBB to each reduce their authorized positions by two. The current estimated impact of all of these changes is net savings of $81.7 million for both PEBB and OEBB in the first plan year.

Another part of PEBB's current strategy to improve health outcomes while containing costs is applying the coordinated care model (CCM) to a limited number of quality medical plans—currently five—with modest deductibles and cost-sharing. The CCM model focuses on primary care and prevention and has defined quality and access standards. CCM plans help reduce the utilization of unnecessary services, improve coordination of disease management among varying providers, and use innovative reimbursement models. PEBB's CCM focus is also indicative of its alignment with CCO 2.0. For example, PEBB plans to increase the level of reimbursements based on value-based payments according to the same schedule planned for Oregon Health Plan reimbursement to CCOs. Under this plan, at least 70% of PEBB's and OEBB' payments will be value-based by 2024.



Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for PEBB is $2.12 billion Other Funds. Consistent with SB 1067 (2017), the budget caps PEBB's total core program expenditure growth at 3.4% per member per year. The budget also adds two positions and increases expenditure limitation by $0.9 million to support the planning stage of a project to replace the benefit management systems used by PEBB and OEBB with an integrated system. The current benefit management systems used by each program were built on antiquated legacy technologies and are difficult and costly to maintain. A similar adjustment is included in the OEBB budget to support its share of the planning.

The only other substantive adjustment to the PEBB budget is an expenditure limitation increase of $17.2 million to support the continuation of the insurer assessment at 2%. As specified in HB 2010 (2019), the impact of the assessment on PEBB plans is excluded from determining the 3.4% annual per capita growth cap.

Oregon Educators Benefit Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,507,266,355	1,709,882,105	1,739,526,870	1,740,140,020
Total Funds	**$1,507,266,355**	**$1,709,882,105**	**$1,739,526,870**	**$1,740,140,020**
Positions	22	19	19	20
FTE	22.00	19.00	19.00	20.00

Program Description

The Oregon Educators Benefit Board (OEBB) administers medical, dental, vision, and other benefits for Oregon's school districts, education service districts, and community colleges, as well as some cities, counties, and special districts. More than 150,000 participating employees, early retirees, and their eligible dependents are enrolled in benefit plans. Unlike PEBB, all OEBB plans are fully-insured and participating insurers carry the risk for cost overruns. OEBB has prioritized choice in plan options for employers and employees, resulting in a large number of different plans. Employers can choose to offer all available plans or a subset of plans to their employees.

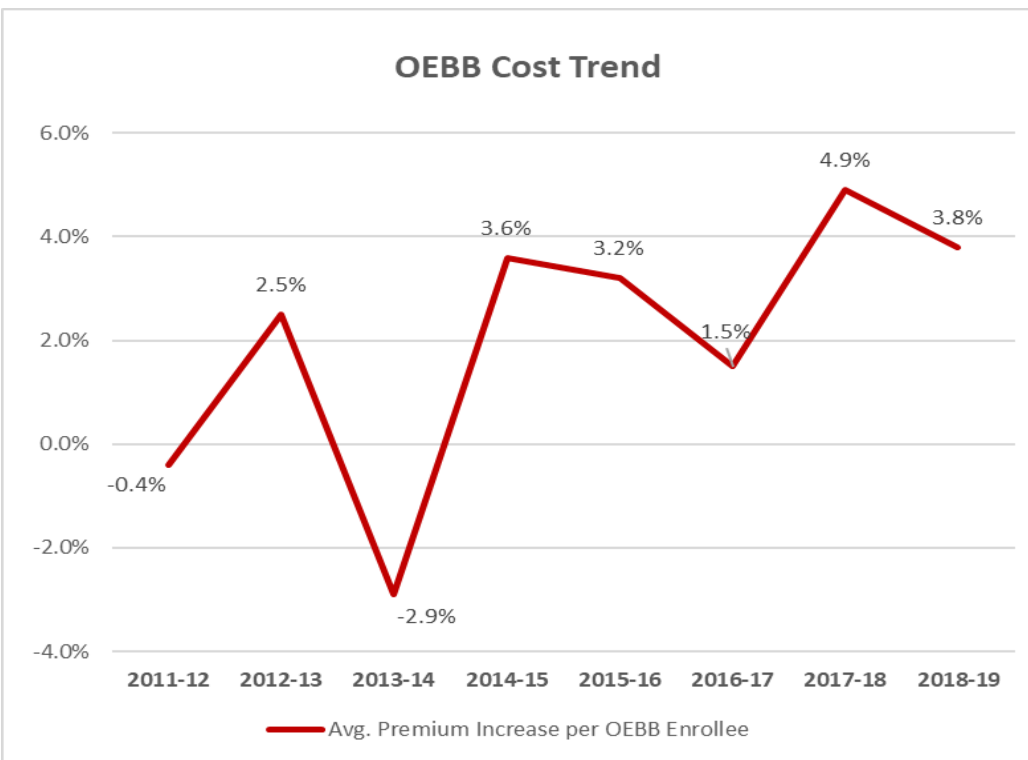
Under state law, OEBB is comprised of at least 10 members appointed by the Governor and confirmed by the Senate. Of these 10 members, the following representation must be covered: two members representing school boards; two members representing education management; two members representing education non-management; one member representing local government management; one member representing local government non-management; and two members who have expertise in health policy or risk management.

Revenue Sources and Relationships

OEBB is funded entirely with Other Funds revenue received from premium payments for all insured individuals. Operational costs are funded through an administrative assessment built into the health, dental, and vision insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. OEBB's assessment for the 2019-21 plan year is 1.3% and estimated administrative expenses total $12.6 million for 2019-21.

Budget Environment

OEBB has mostly been successful at keeping the rate of growth of average cost per employee below the 3.4% threshold since the 2011-12 plan year. However, this has been challenging due to the even higher cost trends OEBB faces in the commercial insurance market, which have ranged from 8% to 9% compared to the 7% to 8% cost trends PEBB typically faces in the self-insurance market. To keep costs down, OEBB has often relied on its breadth of available plans and member selection of lower cost options.



Notwithstanding the option of lower cost plans, containing costs over the long-term is challenging unless the underlying costs of care are addressed and health outcomes improved. OEBB has taken steps toward this goal through an initiative to move more members from preferred provider organization (PPO) plans into coordinated care model (CCM) plans. The migration into CCM plans has increased from approximately 13,300 in 2014 to 30,900 in 2018, resulting in approximately 57% of members enrolled in a CCM plan as opposed to a PPO plan. OEBB's five-year strategy focuses on strengthening CCM participation and the model itself by ensuring plan designs have the right incentives in place for members to choose patient centered primary care homes. OEBB is also committed to the goals of CCO 2.0, including increasing the level of value-based payments according to the same schedule as PEBB and Medicaid.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for OEBB is $1.74 billion Other Funds, which represents a 1.8% increase from the 2017-19 legislatively approved budget. Consistent with PEBB, the budget caps OEBB's total annual core program expenditure growth at 3.4% per employee and invests $0.9 million and two positions (2.00 FTE) to support OEBB's share of the planning stage of the project to replace the benefit management systems used by OEBB and PEBB with an integrated system.

Public Health

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	39,805,881	65,325,147	73,292,764	94,764,237
Other Funds	154,540,730	196,801,605	192,218,213	218,058,929
Other Funds (NL)	25,249,525	40,000,000	40,000,000	40,000,000
Federal Funds	211,115,309	248,100,646	262,783,627	276,352,311
Federal Funds (NL)	81,902,469	102,729,051	102,729,051	102,729,051
Total Funds	**$512,613,914**	**$652,956,449**	**$671,023,655**	**$731,904,528**
Positions	784	771	739	767
FTE	760.59	741.37	731.11	755.53

Program Description

The Public Health Division 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 other 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, county, 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 Public Health Division serves in a unique leadership role. Public health services in Oregon are delivered directly by the Public Health Division or through contracts with local and tribal public health authorities, nonprofit organizations, and clinics.

The Public Health Division has four general program areas:

- ***Office of the State Public Health Director*** – 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 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 the division's fiscal responsibilities and policies.

- ***Center for Prevention and Health Promotion –*** Helps communities and residents achieve and sustain lifelong health, wellness, and safety through the prevention of chronic diseases, child developmental delays, injuries and unsafe relationships, and physical and behavioral problems. The program also works to promote health outcomes by creating environments, policies, and systems that support wellness, such as access to healthy food, physical activity, and safe, tobacco-free environments. The center has the following five sections: Adolescent, Genetics and Reproductive Health; Health Promotion and Chronic Disease Prevention; Injury Prevention and Violence Prevention; Maternal and Child Health; and Nutrition and Health Screening. These programs promote health throughout the lifespan, including pregnancy, early childhood, adolescence, and adulthood.

  An important example of the center's prevention efforts includes activities focused on pregnancy and early childhood to promote the health and well-being of pregnant women and children. Home visiting is one of the most commonly used and effective approaches in serving families with pregnant women, newborns, and young children. Pursuant to legislation adopted during the 2019 session, the center is currently developing a new voluntary universal home visiting model available to all families with newborns.

- ***Center for Health Protection*** – Protects the health of individuals and communities through establishing, applying, and ensuring compliance with regulatory and health-based standards. The center's six sections include: Radiation Protection Services; Drinking Water Services; Environmental Protection; the Oregon Medical Marijuana Program; Health Care Regulatory and Quality Improvement; and the Health Licensing Office. Within this capacity, the center monitors the health status of communities and the performance of the health care systems and has a regulatory role in ensuring 3,400 drinking water systems, 20,000 restaurants, 14,000 radiation sources, 3,400 swimming pools, 2,300 tourist facilities, 18,000 medical marijuana grow sites, and 363 miles of coastline are safe. The center regulates and monitors over 40,300 licensed health professionals and oversees an array of health care facilities, such as ambulatory surgical centers, birthing centers, and dialysis facilities. Services are provided primarily through county health departments and other community and tribal health organizations. The center also works with public and private entities to ensure Oregonians have access to the health care they need and that these entities meet established standards.

- ***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 center has the following six sections: Center for Health Statistics (vital records); Acute and Communicable Disease Prevention; State Public Health Laboratory; HIV, Sexually Transmitted Diseases and Tuberculosis Prevention; Immunizations; and Health Security, Preparedness and Response. The center's programs work with local and tribal governments, a wide range of community partners, health care providers, and affected communities to prevent, investigate, and control infectious diseases, and reduce the burden of disease and health inequities across the state. The center coordinates interventions to control disease outbreaks; screens all newborn infants for biochemical disorders to prevent disability or death; and collects and analyzes vital records data needed to understand and plan for health trends. As part of public health emergency preparedness, the center conducts testing for biological agents of mass destruction (e.g. anthrax) and emerging public health events and diseases, such as wildfires, Zika, and Ebola.

Oregon's public health system relies strongly on the role of local public health authorities. In 2018, Wallowa County returned its local public health authority status to the Public Health Division. With this change, there are currently 33 local public health authorities in Oregon, which include one public health district covering three counties (Wasco, Sherman, and Gilliam). Local public health authorities 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 authorities, such as Multnomah County, provide primary care through safety net clinics.

Prior to 2017, each local public health authority was required to deliver or assure ten specific public health services outlined in statute. Subsequent to recommendations from the Task Force on the Future of Public Health

Services and the passage of HB 3100 (2015), local public health authorities must, at a minimum, meet the following seven foundational capabilities: assessment and epidemiology; emergency preparedness and response; communications; policy and planning; leadership and organizational competencies; health equity and cultural responsiveness; and community partnership development. The authorities must also establish the following foundational programs: communicable disease control; environmental public health; and prevention of injury and diseases and promotion of health. In addition, local public health authorities must adopt and continually update a local public health modernization requirement and satisfy other capabilities identified by OHA.

Revenue Sources and Relationships

More than half of the Public Health Division's budget is funded through Federal Funds, including Medicaid match for contraceptive care and voluntary universal home visiting, payments to support the WIC program, and over 90 grants categorically dedicated for specific purposes, such as emergency and hospital preparedness, cancer prevention and control, and safe drinking water. Given the categorical designation of Public Health's myriad federal grants, the division is limited in terms of how a significant portion of its budget can be expended. The division must continuously monitor and manage how those funds are spent, ensure that positions supported with one or multiple federal grants are appropriately financed according to the work they perform, and plan for any changes in federal revenue and the expiration of one-time grants. The Federal Funds budget also includes funding authorized as Nonlimited, which allows the agency to increase this portion of the budget administratively if the revenue is available. The Nonlimited federal revenue is currently budgeted at $102.7 million and represents federal payments to support WIC program costs.

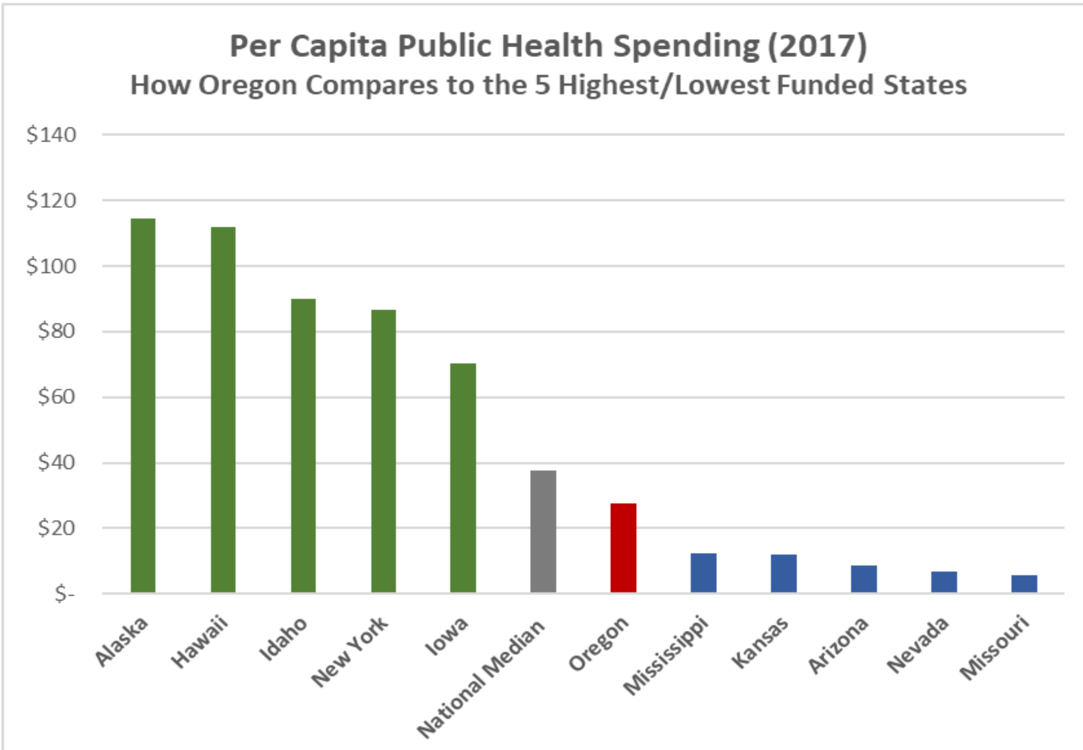
Approximately 35% of the budget is from Other Funds revenue. Similar to the federal grant revenue received, the division's Other Funds revenue is received from various sources and must be used for specific purposes established in statute. Additionally, some of this Other Funds revenue is from various fees established in statute. Public Health must carefully manage expenditures to these fee levels from year to year because they do not grow with the cost of inflation unless the Legislature enacts statutory changes to raise the levels. Examples of the division's Other Funds revenue include tobacco taxes dedicated to tobacco cessation and prevention activities and various fee-based programs, such as newborn screening tests, licensing of hospital and inpatient care facilities, professional licensing, vital records, and licensing and inspection of public places (e.g. food, pool, and lodging). Similar to Public Health's Nonlimited Federal Funds, the division's Other Funds budget also includes Nonlimited revenue supporting the WIC program. The Nonlimited Other Funds totals $40 million and represents rebates from manufacturers of infant formula.

General Fund currently supports 13% of Public Health's budget and has grown considerably over the past two biennia. The 2019-21 legislatively approved budget includes $94.8 million General Fund, which is more than double the amount of General Fund appropriated in 2015-17. Most of the growth in General Fund can be attributed to three issues. First, $17.6 million General Fund was used to backfill declines in medical marijuana revenue in both 2017-19 and 2019-21. Prior to legalization of recreational marijuana, available medical marijuana revenue was used to offset General Fund in several Public Health programs. Subsequent to legalization, the number of medical marijuana cardholders has declined, and many medical marijuana licensees have chosen to transition to the recreational regulatory structure under the Oregon Liquor Control Commission, which significantly decreased the available amount of medical marijuana revenue. Even with the $17.6 million backfill, $1.5 million in medical marijuana revenue still supports non-medical marijuana programs and will eventually need to be backfilled in light of on-going declines in revenue. Second, the 2017-19 budget included an increase of $6.7 million General Fund to support reproductive health services required under HB 3391 (2017). In 2019-21, this investment included roll-up costs of $5.1 million for full biennialization. Finally, the Legislature appropriated $15 million over the course of 2017-19 and 2019-21 to support Public Health Modernization.

Budget Environment

From 1900 to 2017, life expectancy in the United States increased from an average of 47.3 years to 78.6 years. According to the Centers for Disease Control and Prevention, approximately 25 years of this roughly 30-year gain in lifespan is attributable to advancements in public health and the remaining five years from medical care innovations. Studies also suggest that the public perception of this historical increase in lifespan is due to the reverse. This scenario is emblematic of a theme often raised when considering the Public Health Division's budget—when public health programs work well, fewer people are aware of them.

A critical public health function is to improve well-being and achieve health outcomes through prevention, which is less expensive than caring for people with health problems in clinical settings. However, like many other health and human services programs, public health faces significant funding challenges. According to State Health Access Data Assistance Center at the University of Minnesota, Oregon ranked 30th in per capita state funding of public health in 2017, with funding of $27.71 per person. This compares to a nationwide median of $37.48 per person. Oregon also ranks lower than neighboring Idaho at $90.01 (ranked 3rd), California at $61.70 (ranked 7th), and Washington at $41.39 (ranked 21st).



An important issue related to Oregon's public health budget environment is adequately supporting Public Health Modernization. Threats to public health continue to grow in terms of increased opportunities for the spread of communicable diseases, changes in climate, and other 21st century challenges. HB 2348 (2013) created the Task Force on the Future of Public Health Services to study the regionalization and consolidation of public health services, assess the future of Oregon's public health system, and make recommendations for legislation. The 2015 Legislature subsequently required OHA to adopt and update a statewide public health modernization assessment, including developing a plan 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 meets the requirements of a modern public health system; and 2) the resources needed to fully implement public health modernization.

To address the gaps in the public health assessment and to build a sustainable infrastructure to support public health modernization over the long-term, the assessment recommended an initial investment of $30 million in the 2017-19 biennium, with an eventual increase of $210 million in additional funding to fully implement public health modernization. Achieving an investment anywhere near this level is improbable in the near term due to budget constraints and the multitude of other statewide spending priorities. As of the 2019-21 legislatively adopted budget, approximately $15.6 million General Fund has been authorized for Public Health Modernization, which includes a $5 million initial investment in 2017-19, an additional $10 million investment in 2019-21, and an inflationary increase as part of the 2019-21 current service level budget process.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Public Health Division totals $731.9 million total funds, which represents a 12.1% increase from the 2017-19 legislatively approved budget level. The General Fund budget is $94.8 million and represents a 45.1% increase from 2017-19. The growth in funding is largely due to increased support for Public Health Modernization, new funding for a voluntary universal home visiting program, and the backfill of declining medical marijuana revenue. The following summarizes the key changes:

- ***Public Health Modernization*** – $10 million General Fund adds to the $5 million General Fund investment in the 2017-19 biennium to advance Public Health Modernization activities. The additional investment will increase communicable disease prevention and response activities, support efforts to improve health equity, increase emergency response planning, and help develop tribal modernization plans, among other key modernization priorities.

- ***Universal Home Visiting*** – $4.7 million, of which $2.9 million is General Fund, supports a new voluntary universal nurse home visiting program for families with newborns. In order for coverage of these services to be available for all Oregon families, SB 526 (2019) requires health benefit plans offered in Oregon to reimburse the cost of the newborn home visiting services without any cost-sharing. For those who do not have health care through the commercial market, OHA is seeking a Medicaid State Plan Amendment for these services to be available to families who receive health care through the Oregon Health Plan. The Public Health Division will design the program consistent with the Family Connects home visiting model and implement it over a three-biennia period. This investment supports program design activities and the incremental rollout of services to individuals eligible for Medicaid.

- ***Medical Marijuana Revenue Decline*** – $5.5 million General Fund backfills declining medical marijuana revenue used to support local public health authorities. In the past, this revenue had replaced General Fund in several core public health programs, including support for local public health authorities, Drinking Water Services, Emergency Medical Services, and others. Laws passed during the 2015, 2016, and 2017 sessions related to recreational marijuana have significantly reduced medical marijuana program revenue. In 2017-19, the Legislature approved $12.1 million General Fund to mitigate this issue across multiple Public Health programs, leaving state support for local public health authorities as the last non-medical marijuana program budget dependent on this revenue stream. Even with the $5.5 million General Fund backfill, $1.5 million in medical marijuana revenue remains budgeted for local public health pass-through funds and will eventually need to be backfilled to maintain current services given the continued decline of this revenue source.

- ***Fee Adjustments*** – The budget increases Other Funds expenditure limitation to account for fee increases in three separate programs. This includes $1.9 million and five positions (5.00 FTE) for the revised structure of Drinking Water Services fees approved in SB 27 (2019); $0.1 million for a new fee established through the administrative rules process to all manufacturers of children's products to apply for waivers under the Toxic Free Kids Program; and $0.06 million for increased food, pool, and lodging fees approved by SB 28 (2019). The impact for the food, pool, and lodging fee increases is minimal because most of the related regulatory work is delegated to local public health authorities, which directly collect the fees to support their programs.

- ***Senior/WIC Nutrition Programs*** – $0.2 million General Fund provides fresh Oregon-grown fruits and vegetables from farmers' markets and roadside stands to eligible low-income seniors under the Senior Farm Direct Nutrition Program. The budget also includes $1 million for the same purpose for individuals eligible through the WIC program.

- ***Tobacco Tax Forecast*** – Consistent with the May 2019 revenue forecast, Other Funds expenditure limitation is decreased by $0.3 million to reflect lower-than-anticipated tobacco tax revenue available for public health cessation and prevention activities. Unlike declines in tobacco tax revenue dedicated for the Oregon Health Plan and community mental health services, the budget does not backfill the revenue decline in Public Health with General Fund.

Oregon State Hospital

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	453,736,884	509,076,125	494,313,354	497,517,027
Other Funds	17,734,460	36,145,203	70,340,663	70,328,792
Federal Funds	45,372,776	34,852,587	38,792,314	38,929,554
Total Funds	**$516,844,120**	**$580,073,915**	**$603,446,331**	**$606,775,373**
Positions	2,269	2,286	2,283	2,284
FTE	2,268.82	2,279.45	2,282.82	2,283.82

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 OSH budget also supports the 16-bed Pendleton Cottage, which is Oregon's only state-operated secure residential treatment facility and is located on the grounds of the former Easter Oregon Training Center in Pendleton. The hospital's services include 24-hour nursing, psychiatric care, treatment planning, pharmacy, laboratory, food and nutritional services, and vocational and educational services. By leveraging these resources, OSH's main role is to treat individuals and prepare them to safely return to their communities as soon as they are ready.

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

- ***Civil Commitment*** – People who have been found by a 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 people who have significant co-occurring medical issues, such as dementia, Alzheimer's, or traumatic brain injury.

- ***Guilty Except for Insanity (GEI)*** – People who have committed a crime but could not be convicted because their mental illness prevented them from following the law or understanding the act was illegal. The Psychiatric Security Review Board (PSRB) has statutory jurisdiction over GEI clients receiving treatment in OSH or on conditional release in the community.

- ***Aid and Assist*** – People who have been arrested but determined unable to participate in their legal proceedings due to a mental illness and need restorative mental health services in order for 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 courts under ORS 161.370.

Management of the overall behavioral health system has a large impact on the success of OSH. The hospital's key partners include the OHA Health Systems Division, the PSRB, regional hospitals, community mental health programs, advocacy groups, and other community stakeholders. To ensure only people who need hospital-level care are admitted, a robust array of preventive, treatment, and crisis services must be available in the community. The community behavioral health system must also have sufficient capacity to provide services and supports in a variety of integrated and independent settings tailored to each individual's needs for patients to be released from the hospital when they are ready.

The hospital has gone through significant programmatic changes over the past several years. The antiquated facilities in Salem were replaced at the end of 2011 with a modern psychiatric treatment and recovery hospital, which has a maximum capacity of 586 beds, of which 554 are currently active. A second new hospital, located in Junction City, was opened in March 2015. This facility has a maximum capacity of 174 beds, of which 112 are active through the utilization of four wards (96 beds) and two cottages (16 beds). With the opening of the

Junction City facility, the OSH campus in Portland was closed and all patients were transferred to the Salem and Junction City campuses. The Blue Mountain Recovery Center in Pendleton was closed in early 2014.

The replacement of the old state hospital involved a long process of study and assessment, beginning in the 2003-05 biennium. The first assessment report was released in May 2005 and concluded the previous facilities were not conducive to best practices of contemporary mental health treatment. In 2006, the agency released a report titled, *Framework Master Plan, Phase II Report*, which contained an analysis of the demand for hospital services for the next 25 years and made recommendations to meet that 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, the construction of two new facilities was authorized—one in Salem at the original OSH campus and a smaller one near Junction City adjacent to a planned Department of Corrections facility. Construction began on the new Salem facility in September 2008. This outcome 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. The cost of the entire project, including the Salem and Junction City facilities, project management and staffing, and the implementation of an electronic health records system through the Behavioral Health Integration Project, was slightly over $500 million.

Revenue Sources and Relationships

Consistent with the 2019-21 legislatively adopted budget, OSH's budget is comprised of 82% General Fund, 12% Other Funds, and 6% Federal Funds. A small portion of the hospital's General Fund budget ($0.8 million) is distinctly appropriated for capital improvements at the Salem and Junction City campuses. Consistent with ORS 276.285, these funds will be transferred to an account dedicated for capital improvement projects, which the agency has the flexibility of using during the biennium or saving for capital improvement projects in future biennia, as necessary.

The hospital receives most of its Other Funds revenue from insurance reimbursements and settlements for billable services for covered patients, principally through Medicare-eligible services and, to a lesser extent, third-party (commercial) insurance. Some revenue also comes from patients' Social Security benefits, private donations and grants, and miscellaneous revenue from certain hospital services, such as cafeteria and coffee shop sales. Most of the hospital's federal revenue comes from federal Disproportionate Share Hospital (DSH) payments available to eligible psychiatric institutions to help defray the cost of providing uncompensated care. It also includes Title XIX Medicaid, which supports services for eligible patients under age 21 or 65 and older, as well as patients in the Pendleton Cottage. Federal law otherwise prohibits Medicaid reimbursement for patients age 21 through 64 who are in mental health and substance use disorder residential treatment facilities larger than 16 beds. This rule is known as the "Institutions for Mental Diseases (IMD) exclusion."

The relationship between the hospital's General Fund, Other Funds, and Federal Funds resources is important given the high cost necessary to maintain 24-hour care at the hospital and the General Fund savings or costs that can occur commensurate with fluctuations in Other Funds and Federal Funds revenue. Over the past four years, the hospital has undertaken a significant effort to improve its ability to bill for services reimbursed by Other Funds and Federal Funds revenue. Upon the completion of hospital improvements in 2016, the number of beds certified by the Centers for Medicare and Medicaid Services (CMS) increased from 115 to 569, which means the hospital can bill for patients covered by Medicare, Medicaid, and third-party insurance. To maintain CMS certification, the hospital must continue meeting certain quality and safety standards.

The 2017-19 legislatively adopted budget recognized the anticipated new revenue by increasing Other Funds expenditure limitation by $40.5 million. Of this amount, $10.4 million was approved to help maintain CMS compliance through safety improvements, staffing levels (increase of 32 positions), and standing up the new billing processes and systems. The remaining $30.1 million of additional revenue was used to reduce OSH's General Fund budget by the same amount as a budget-saving measure. Throughout 2017-19, however, the hospital experienced significant challenges and delays in implementing the new billing processes and systems, which resulted in the Legislature restoring most of the General Fund reduction through two separate agency budget rebalances—$15 million in the December 2018 rebalance and $11 million in the May 2019 rebalance. In addition to the Other Funds reimbursement challenges, the estimated amount of federal DSH revenue is expected to decline by roughly $10 million. The 2019-21 budget continues to rely on the anticipated Other Funds and Federal Funds revenue given OHA's on-going work to assess and resolve these challenges. However, to the extent the agency's efforts to improve billings and identify other solutions do not mitigate the revenue challenge, a General Fund investment will be necessary to maintain services at the hospital.

Budget Environment

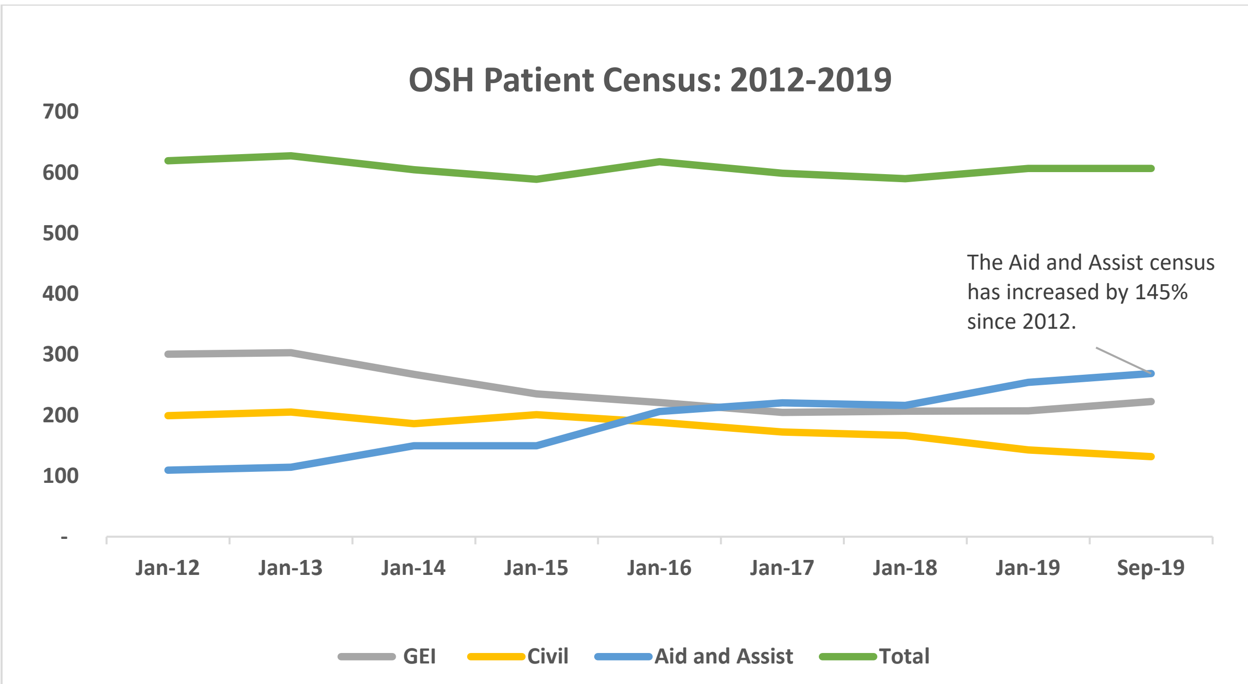
As a 24-hour institution operating every day of the year, OSH functions very differently from the rest of the agency. The primary cost driver is staff, with over 70% working in direct care positions, such as nurses, psychiatrists, and psychologists. Employee salaries and benefits comprise 85% of the budget. A significant amount of the program's services and supplies expenditures are also directly related to patient care, such as prescription drugs and food.

Per ORS 441.154 and ORS 441.155, the hospital's staffing plan is set by the nurse staffing committee, composed of both nurse management and members represented by collective bargaining (AFSCME-RN). The staffing needs are based on the level of acuity (the severity of symptoms and level of care patients need) and commitment type (civil commitment, GEI, and Aid and Assist). Sufficient staffing is key to OSH's ability to remain compliant with U.S. Department of Justice (USDOJ) guidelines for the Civil Rights of Institutionalized Persons Act, specifically those areas related to adequate nursing care, adequate protection from harm, ability to provide adequate mental health care, and appropriate use of seclusion and restraints. A consequence of this budget structure is that the agency has very little flexibility to manage cost increases or budget reductions without directly impacting the quality of care and safety of patients and staff. Holding positions vacant, a common cost-saving strategy in other parts of the agency, directly results in increased costs for overtime or contractual nursing services.

Another challenge is finding the appropriate balance within the continuum of care for institutional and community-based services. The continued development of community residential capacity and the advancement of pharmacological treatment has enabled more mental health services to be provided at the community level rather than the institutional level. Recognizing that effective treatment requires a strong continuum of care involving various venues, 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 patient population of over 5,000 in the 1950s to a current population fluctuating between 600 and 650. In the process, the role of the hospital has changed from a focus on custody and care to providing active specialized psychiatric treatment.

USDOJ has been actively involved in Oregon's mental health system. It conducted a review of OSH under the Civil Rights of Institutionalized Persons Act and issued a highly critical report in January 2008, before the new facilities were built. Many of the issues identified by USDOJ have been addressed through the new facilities, although concerns remain that patients are often not moved out of the hospital quickly enough. Again, a critical element of this situation is the availability of adequate services in the community. In 2011, USDOJ requested extensive documentation relating to services available in Oregon's community mental health system, with a focus on ensuring patients receive care in the least restrictive settings possible. The availability of these services is important from a legal perspective. In 1999, the U.S. Supreme Court ruled in *Olmstead v. L.C.* that unjustified segregation of persons with disabilities constitutes discrimination in violation of the Americans with Disabilities Act. In 2012, the State of Oregon and USDOJ entered into an agreement to address gaps in the state's delivery of community mental health services. In July 2016, OHA finalized the three-year Oregon Performance Plan, which requires the state 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. The plan's data collection period ended July 1, 2019 and OHA's final report is due January 2020. A final report from an independent contractor assessing the state's compliance is due in May 2020.

Throughout this time, the GEI and civil commitment populations have decreased, but the Aid and Assist population has more than doubled, from approximately 110 at the beginning of 2012 to over 260 in 2019. At times, more than 50 individuals under Aid and Assist court orders have been placed on an admissions list pending the availability of bed space in the hospital. This scenario carries significant budget and legal risks to the extent Aid and Assist patients are not admitted within a federal court-ordered seven-day period (*Oregon Advocacy Center v. Mink*). In June 2019, a Washington County court held the state in contempt for not meeting the seven-day requirement for four Aid and Assist admissions. A separate contempt proceeding was brought against OHA in federal court, with the judge requiring OHA to report within 90-days the agency's efforts to return to compliance with the seven-day requirement.



The state has taken multiple actions over the past few years to address the increase in court-ordered Aid and Assist admissions. In 2015-17, the community mental health budget received a General Fund investment of $4.1 million to provide more services for Aid and Assist patients in the community. The December 2018 Emergency Board increased this amount by $1.5 million General Fund for additional support through the remainder of the 2017-19 biennium. In turn, the 2019-21 legislatively adopted budget includes an additional $7.6 million General Fund in on-going support for this purpose. These funds will focus on building community capacity for restorative Aid and Assist services in the counties with the highest court-ordered Aid and Assist admissions.

The Legislature also adopted legislation in the 2019 session to enhance the process for determining defendants' fitness to participate in their own trials and the restorative services they receive under court orders. SB 24 (2019) requires courts to consider ordering rehabilitation services in the least restrictive setting possible or finding an alternative disposition for a defendant who does not require a hospital level of care. It also allows for the commitment of misdemeanor defendants to OSH only when a hospital level of care is necessary. SB 25 (2019) creates timelines for courts to deliver orders for fitness to proceed evaluations and for public and private entities to deliver relevant mental health records to fitness evaluators.

At the end of the 2019 session, OHA announced the opening of two cottages at the Junction City campus to help the state remain in compliance with the court-ordered seven-day requirement. This action allowed for the transfer of civil commitment patients from Salem to Junction City and, in turn, made available a new 26-bed unit for Aid and Assist patients in Salem. The full effect of these changes on the Aid and Assist population has not yet been determined, but the agency currently remains in compliance with the seven-day requirement.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for OSH totals $606.8 million, which represents a 4.6% increase from the 2017-19 legislatively approved budget. The General Fund budget is $497.5 million, which represents a decrease of 2.3% from 2017-19. This decrease from 2017-19 to 2019-21 is the result of a General Fund increase approved as part of the agency's May 2019 budget rebalance to support cost increases identified as one-time only in 2017-19.

The 2019-21 budget supports the existing census level without any administrative reductions. The budget also includes the following investments:

- ***Suicide prevention*** – $1 million General Fund supports ligature removal, facility alterations, and other environmental changes to reduce the risk of patient injury and suicide. This investment helps OSH conform to heightened safety requirements by CMS and The Joint Commission.

- ***Hepatitis C treatment*** – $1.6 million General Fund expands hepatitis C treatment to OSH patients who remain in the hospital long enough to receive the treatment regimen. This adjustment mirrors the coverage now available under the Oregon Health Plan for treatment of members with any stage of the disease.

- ***Shift differentials*** – $1.9 million General Fund pays for the cost of nursing staff shift differentials that were negotiated as part of the collective bargaining process.

As mentioned earlier, the agency's 2019-21 budget continues to rely on Other Funds revenue that may not materialize due to delays in the agency's effort to increase Medicare and third-party insurance reimbursements. This issue, plus a forecasted decrease in available federal DSH money, remain a significant 2019-21 budget risk. The budget report for OHA's budget bill (SB 5525) requires the agency to continue monitoring revenue collections for the hospital throughout 2019-21 and present solutions to address the revenue shortfall in each agency budget rebalance report submitted to the Legislature.

Central Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	19,819,362	27,941,146	28,476,390	35,951,670
Lottery Funds	--	31,570	32,769	32,710
Other Funds	1,973,783	2,671,614	2,340,214	2,585,222
Federal Funds	7,324,597	9,546,389	6,001,227	10,865,911
Total Funds	**$29,117,742**	**$40,190,719**	**$36,850,600**	**$49,435,513**
Positions	109	113	108	139
FTE	107.61	107.37	107.11	138.89

Program Description
Central Services provides the leadership and business support to achieve the agency's mission. This budget structure supports 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, other state and federal agencies, partners and stakeholders, local governments, advocacy and client groups, and the private sector.

- ***External Relation's 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 broad understanding of how OHA contributes to the health of Oregonians.

- ***Agency Operations Division*** – Provides operational support and human resources services to OHA. The division includes Central Operations and Human Resources.

- ***Fiscal Division*** – Provides leadership and oversight of financial policies and coordinates budget development and execution for OHA. The division includes the functional areas of budget and health care finance.

- ***Office of Equity and Inclusion*** – Works on behalf of OHA and the broader health care system in the state to ensure the elimination of avoidable health care gaps and to promote optimal health for Oregonians.

Revenue Sources and Relationships

Central Services is funded based on a federally approved cost allocation plan where programs are charged according to their respective state and federal funding sources for the support they receive from the programs within Central Services. The transfer of programs into or out of OHA, as well as the enhancement or reduction of existing OHA programs, can impact the model's cost allocation statistics and result in changes to the amount of General Fund, Other Funds, or Federal Funds supporting Central Services.

Budget Environment

General Fund cost pressures in Central Services over the past several years have largely related to process and program changes impacting the agency's cost allocation model. The most notable example of this occurred when the Oregon State Hospital was brought into the agency's cost allocation model during the 2015-17 biennium, which had a significant impact on the General Fund because of its use as the primary resource for State Hospital expenditures. The transfer of programs to and from the agency have also had an impact, such as the transfer of the Oregon Health Plan eligibility processing center to the Department of Human Services in 2017-19. Based on changes like these, the impact on the cost allocation statistics resulted in cost shifts from Other Funds and Federal Funds to the General Fund in the amounts of $3.8 million in 2015-17, $4.2 million in 2017-19, and $3.9 million in 2019-21. Similar General Fund increases to support the cost allocation model also occurred in the State Assessments and Enterprise-wide Costs and Oregon State Hospital budgets during this period.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $36 million, which represents a 23% increase from the 2017-19 legislatively approved budget. The General Fund budget is $27.9 million and represents a 29% ($7.5 million) increase from 2017-19. The large percentage increases in both the total funds and General Fund budgets are due to the following adjustments:

- ***Community Partner Outreach Program*** – This program was transferred from OHA to the Department of Human Services (DHS) as part of the transfer of Medicaid eligibility services in 2017-19. Based on the subsequent determination by DHS and OHA that this program was not sufficiently aligned with the Medicaid eligibility process, the program has been returned to OHA. This results in the transfer of $9.6 million total funds, which includes $4.9 million General Fund and 21 positions from DHS to OHA. In addition to the return of this program to OHA, the budget increases program support through a one-time $2.4 million General Fund appropriation to increase outreach for the Cover All Kids program.

- ***Cost allocation*** – A fund shift of $3.9 million from Other Funds and Federal Funds to the General Fund reflects changes in the agency's cost allocation statistics due to the transfer of the Oregon Health Plan eligibility processing center to DHS in 2017-19.

As an administrative savings measure, the budget recognizes vacancy savings of $0.2 million General Fund. It also includes a series of net-zero technical fund shifts and position transfers, and adjusts position and FTE counts without increasing funding to true-up position double-fills and recognize positions that have transitioned from permanent part-time to permanent full-time.

State Assessments and Enterprise-wide Costs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	187,293,959	200,002,472	214,917,184	213,515,895
Lottery Funds	--	200,000	215,540	215,540
Other Funds	30,520,145	21,524,699	28,884,476	26,711,053
Other Funds (NL)	129,500,902	--	--	--
Federal Funds	57,304,732	51,986,530	48,333,042	45,675,252
Federal Funds (NL)	4,054,172	3,728,175	3,467,210	3,467,210
Total Funds	**$408,673,910**	**$277,441,876**	**$295,817,452**	**$289,584,950**

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 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 the Department of Human Services (DHS). Debt service costs became part of the SAEC budget in 2013-15 to pay for bonds issued through the federal Build America Bonds program. OHA's debt service costs are for the repayment of bonds for the construction of the Oregon State Hospital facilities in Salem and Junction City. The SAEC budget does not include any staff.

Revenue Sources and Relationships

Of SAEC's $286.1 million total funds budget, $67.4 million supports debt service, which includes $63.7 million General Fund, $0.2 million Other Funds, and $3.5 million Federal Funds (Nonlimited). Apart from debt service, the SAEC budget is similar to Central Services regarding its reliance on a federally approved cost allocation plan where programs are charged according to their respective state and federal funding sources for the costs they incur.

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. Similar to the Central Services budget, the transfer of programs into or out of OHA, as well as the enhancement or reduction of existing OHA programs, can impact the model's cost allocation statistics and result in changes to the amount of General Fund, Other Funds, or Federal Funds supporting SAEC.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for SAEC totals $289.6 million, which represents a 4.4% increase from the 2017-19 legislatively approved budget. The General Fund budget is $213.5 million and represents a 6.8% increase from 2017-19. The key budget adjustments include the following:

- ***Cost allocation*** – A fund shift of $4.1 million from Other Funds and Federal Funds to the General Fund is included as a current service level budget adjustment due to the transfer of the Oregon Health Plan eligibility processing center to DHS in 2017-19.

- ***Budget transfer*** – $3.7 million total funds, which includes $2.6 million General Fund, is transferred from Central Services to SAEC as an agency-wide net-zero budget adjustment to properly budget for Office of Administrative Hearings costs.

- ***Administrative savings*** – As a budget-saving measure, above-standard inflation applied during the current service level budget process for usage-based items is eliminated, which saves $1.2 million General Fund.

Shared Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	131,680,947	166,507,479	166,549,551	181,222,528
Total Funds	**$131,680,947**	**$166,507,479**	**$166,549,551**	**$181,222,528**
Positions	487	539	501	560
FTE	476.87	528.34	501.00	549.52

Program Description
Shared Services supports costs associated with business functions used by both OHA and the Department of Human Services (DHS) 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 is reflected entirely as Other Funds expenditure limitation. The OHA and DHS budgets both have a Shared Services budget structure housing different programs and services used by each agency.

The only program currently housed in OHA's Shared Services budget is the Office of Information Services (OIS). This program deploys and maintains the information technology 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 key business services, such as payroll distribution, vendor payments, and personnel actions.

Prior to 2019-21, OHA's Shared Services budget also included the Information Security and Privacy Office (ISPO). Upon the passage of SB 90 (2017), the state's information technology security functions were centralized within the Department of Administrative Services Office of the Chief Information Officer (OSCIO). This resulted in the transfer of four positions and OHA security oversight from the ISPO to OSCIO. As a result, the 2019-21 budget transfers the remaining ISPO positions and funding to the OIS budget structure. Whereas OIS is budgeted within OHA's Shared Services structure, OHA uses the following services that are budgeted within DHS's Shared Services budget: 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 allocated to OHA and DHS based on a federally-approved cost allocation plan. The distribution of expenditures through the cost allocation process determines the payments 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 and paid from General Fund, Lottery Funds, Other Funds, and Federal Funds.

Budget Environment
The shared services model began in the 2011-13 biennium when the once-combined OHA and DHS were reorganized into separate agencies. The Shared Services structure was chosen to ensure the cost effectiveness of administrative services and to eliminate the duplication of resources. Reductions made in the shared administrative services operations result in corresponding reductions elsewhere in the OHA and DHS budgets.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for Shared Services totals $181.2 million Other Funds, which represents a 9% increase from the 2017-19 legislatively approved budget. The key budget adjustments include the following:

- ***ONE IE/ME*** – $11.2 million Other Funds and 41 positions (30.52 FTE) support the shared services component for the continuation of the ONE Integrated Eligibility/Medicaid Eligibility project for both OHA and DHS. Corresponding budget adjustments are made in OHA's Health Systems Division budget and the DHS budget.

- ***Comprehensive Child Welfare Information System (CCWIS)*** – $2.8 million Other Funds and nine positions (9.00 FTE) support the continuation of the planning and initiation work related to the CCWIS project in DHS. A corresponding adjustment is made in the DHS budget to support these expenses.
- **C*entralized Abuse Management (CAM) System*** – $0.5 million Other Funds and two positions (2.00 FTE) support maintenance and operations costs to build on the CAM System project implemented in 2017-19. The system will provide an integrated solution for tracking, reporting, and supporting investigations of adult abuse. A corresponding adjustment is made in the DHS budget to support these expenses.

DEPARTMENT OF HUMAN SERVICES

Analyst: Byerly

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,713,968,780	3,203,132,651	3,723,069,270	3,855,078,525
Other Funds	484,567,909	666,808,960	570,282,885	673,915,109
Federal Funds	4,601,139,098	5,575,122,100	5,823,621,440	6,094,787,849
Federal Funds (NL)	2,129,912,523	2,214,345,331	2,214,345,331	1,939,345,331
Total Funds	**$9,929,588,310**	**$11,659,409,042**	**$12,331,318,926**	**$12,563,126,814**
Positions	8,029	9,075	9,162	9,444
FTE	7,877.90	8,616.92	9,084.50	9,324.14

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. In 2009, responsibility for health programs (physical, public, mental) was shifted from DHS to the Oregon Health Authority (OHA). The two agencies work closely together to serve their many common clients and also share several administrative functions to leverage efficiencies and economies of scale.

Trends that influence demand on DHS programs and the agency's budget include a growing population of older adults, an increasing number of people with disabilities, the rate of economic growth, a tight labor market in which housing and other living costs outpace wage increases, and regional dynamics that have limited economic recovery in many parts of rural Oregon.

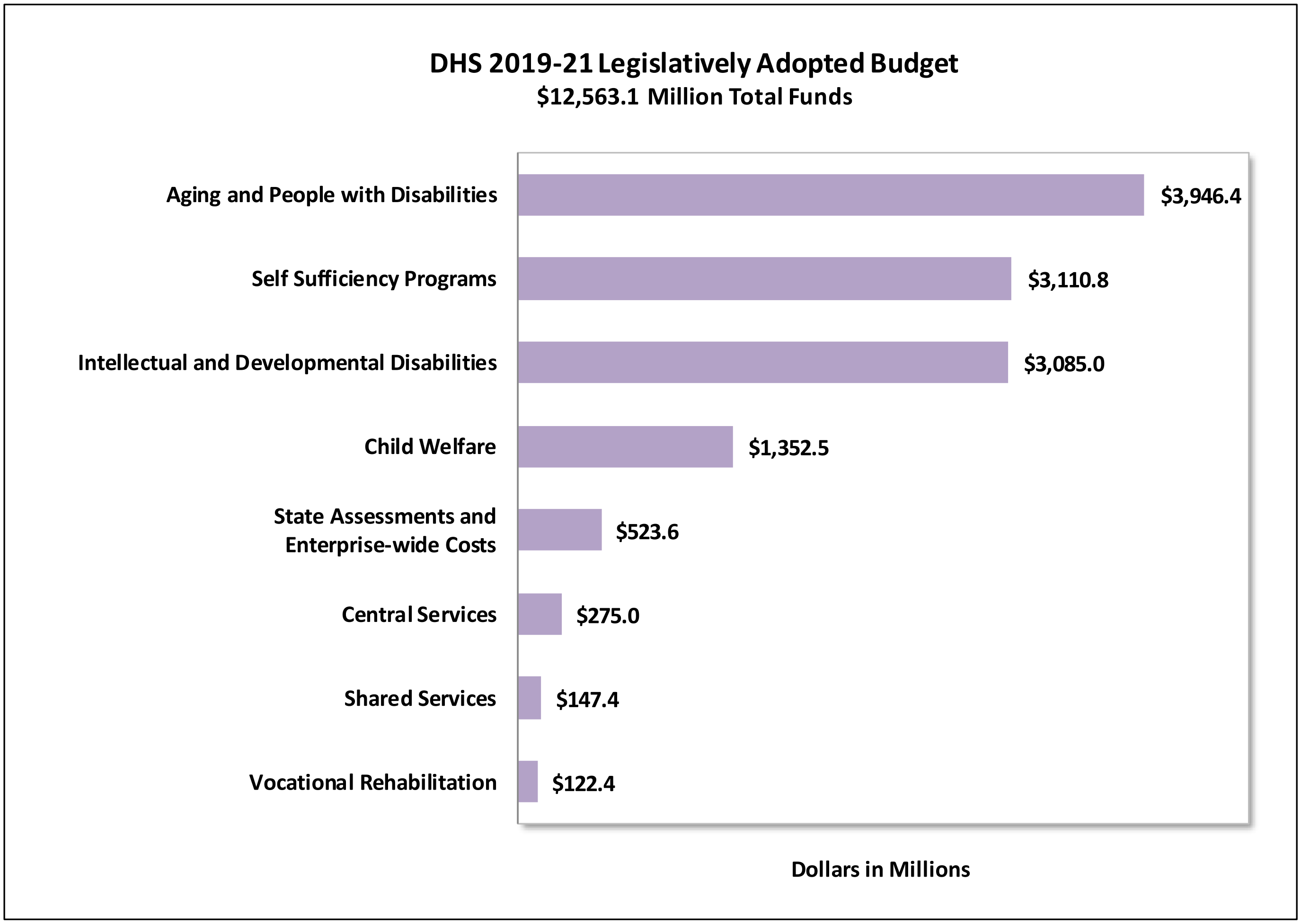
To provide services, the agency operates through five distinct separate program areas:

- 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 offer 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.

In addition to these programmatic budget groupings, DHS uses three administrative budget structures to capture an array of services and supports for DHS and, in the case of some shared functions, also for OHA. Central Services includes activities directly related to policy and program in the agency, such as the director's office, communications, organizational development, and budget planning. DHS' portion of Shared Services includes budget, forecasting, financial services, human resources, facilities, imaging and records, contracts and procurement, training, internal audit, payment recovery, and background checks. The budget for State Assessments and Enterprise-wide Costs pays for various assessments or charges paid by all state agencies and certain centralized agency costs.

At the 2019-21 legislatively adopted budget level, DHS has the second largest budget of any state agency, after OHA. DHS makes up 17.2% of the statewide General Fund budget and 14.6% of statewide total funds spending.

The following chart shows how the agency's 2019-21 legislatively adopted budget of $12,563.1 million total funds is allocated across programs and budget structures:



Revenue Sources and Relationships

For the 2019-21 biennium, General Fund supports 30.7% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort (MOE) requirements for receiving Federal Funds. The overall General Fund share of DHS' budget is 3.2% higher than it was in the 2017-19 biennium and includes General Fund added to offset one-time non-General Fund revenues used in 2017-19, General Fund savings from one-time revenues assumed in the 2019-21 biennium, and ongoing or new General Fund investments.

Other Funds revenues support 5.4% 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 spent as Other Funds in DHS on the Employment Related Day Care (ERDC) program.

Federal Funds support 64% of DHS expenditures for the 2019-21 biennium. The largest single Federal Funds source is for the Supplemental Nutrition Assistance Program (SNAP, previously known as food stamps), which makes up 15.4% 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), while 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 2019-21 are based primarily on federal fiscal year 2019 budget levels and federal programs as currently authorized. A key factor affecting federal revenue is the Federal Medicaid Assistance Percentage (FMAP); this federal reimbursement rate is used for multiple programs and is calculated based on a three-year average of state per capita personal income compared to the national average. For 2019-21, the FMAP adjustment is not working to the state's advantage; the federal matching share will decrease from a biennial average of 63.33% in 2017-19 to 61.36% in the 2019-21 biennium. In addition, recent projections show the state's FMAP dropping again in federal fiscal year 2021, which will lower the 2019-21 currently budgeted average rate even further; this translates into needing more General Fund support for mandated programs and will likely require an interim budget adjustment. Since federal fiscal year 2017, Oregon's FMAP rate has declined by 3.63 percentage-points, which is the largest decrease for a state over that time period.

<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 close to 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 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. Most proposed program or rate 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 from 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, federal sequestration (automatic spending cuts) has affected DHS programs differently; 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 DHS/OHA shared service 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, monitor budget versus actual expenditures, and make management decisions.

The 2019-21 legislatively adopted budget is based on the Spring 2019 caseload forecast, which was released in May 2019. Routinely, 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 can be 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 74% 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. An ongoing 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 may be used as a target or reference point. For context, at the agency request budget stage, DHS projected it would take $128.6 million General Fund ($178.8 million total funds) and 640 positions (612.98 FTE) to fund agency program staffing models at 100%. 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 sufficient to support earlier, less-costly services while still paying for more intensive, and often more expensive services, to meet emergent needs and address 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, such as individual supports, community programs, or residential services, in theory, could be reduced through provider rate reductions. However, in practicality, providers' operational costs, collective bargaining requirements for some providers, and state statutory requirements are all factors that may make that reduction untenable. The agency has made efforts to better tie reimbursement to levels of need, but provider reimbursement has historically been determined by the type of provider group and is not consistent across programs or services provided.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Department of Human Services is $3.855 billion General Fund, $12.563 billion total funds, and 9,444 positions (9,324.14 FTE). The budget is 20.4% General Fund and 7.8% total funds more than the agency's 2017-19 legislatively approved budget. The 9,444 positions (9,324.14 FTE) approved for 2019-21 reflect a 4.1% increase (369 positions) over the 2017-19 level; the percentage increase for FTE is greater, at 8.2% (707.22 FTE), due to the roll-up of positions phased in over the 2017-19 biennium.

Over 60% of the net growth in General Fund (and total funds) is attributable to costs of caseload growth and associated cost per case; expenditures are driven by the roll-up of rate increases from the prior biennium and changes in the caseload mix across programs. About 25% of the growth is tied to personal services, which includes impacts of collective bargaining (salary increases) and position phase-ins.

The adopted budget continues core programs, adjusts for caseload changes, and adds new or expanded funding for some programs. Key elements of the budget include:

- Uses repurposed federal TANF funding to expand housing assistance and employment/training services for families served by Self Sufficiency Programs.
- In Child Welfare, adds approximately 350 new positions, primarily for caseworker, foster parent retention and recruitment, and centralized hotline positions.
- Provides additional funding for Vocational Rehabilitation to deliver pre-employment services and maintain current service level.

- Includes additional funding for provider rate increases in the Intellectual and Developmental Disabilities program to help providers increase wages for direct support professionals who work in their organizations.
- For the Aging and People with Disabilities program, increases the Medicaid case management workforce by about 10% and funds rate increases for long-term care providers.

A significant cross program budget component is funding for the final development phase, implementation, and transition to Maintenance and Operations (M&O) of an integrated eligibility system, called the Integrated Eligibility (IE) project. This effort integrates enrollment and eligibility activities for several DHS programs into the system used by OHA. The 2019-21 estimated project cost of $200.6 million total funds covers state staff costs of $20.7 million, $94 million for contracted information technology services, $11.2 million for payments to OHA for its project work, and $5.8 million for debt service. Other elements addressed in the project plan include cost allocation, contingency, legacy system work, hosting services, disaster recovery, and security enhancements.

Six budget notes were approved in budget reports for two of the five budget bills impacting the agency's 2019-21 budget; 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 applicable reporting requirements are as follows:
- Breaking out the agency's budget appropriations into more detail for 2021-23 budget development; HB 5026 (2019); the DHS budget bill submitted for the 2021 session should contain the lower level appropriations.
- Working with Child Welfare residential providers to identify strategies to help attract, develop, and retain a quality workforce; HB 5026 (2019); report to appropriate policy committee(s) no later than September 2020.
- Exploring opportunities to obtain federal funding for the Oregon Project Independence program and a family caregiver respite program; HB 5026 (2019); report to appropriate policy committee(s) no later than December 21, 2020. Budget note also provides direction regarding a potential Medicaid wavier for these services.
- Reporting on case management duties and training requirements for case managers serving individuals with intellectual and developmental disabilities; HB 5026 (2019); report to human services policy committees during the 2020 legislative session.
- Providing direction on how $30 million General Fund approved for rate increases for providers serving people with intellectual and developmental disabilities is to be applied to help bring the direct support professional wage as close as possible to $15.00 per hour by the end of the 2019-21 biennium; HB 5026 (2019); report by February 1, 2020, to the Interim Joint Committee on Ways and Means.
- Updating the Legislature on development of a new rate model for adult foster homes serving people with intellectual and developmental disabilities; HB 5050 (2019); report by February 1, 2020, to the Joint Interim Committee on Ways and Means.

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

Self Sufficiency Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	437,708,507	395,195,756	457,882,613	448,736,284
Other Funds	101,806,247	108,963,729	91,182,241	120,449,792
Federal Funds	299,664,391	534,237,954	571,902,877	602,221,798
Federal Funds (NL)	2,129,912,523	2,214,345,331	2,214,345,331	1,939,345,331
Total Funds	**$2,969,091,668**	**$3,252,742,770**	**$3,335,313,062**	**$3,110,753,205**
Positions	2,043	2,514	2,522	2,498
FTE	2,034.49	2,358.29	2,519.10	2,494.60

Program Description

Self Sufficiency Programs (SSP) assist low-income families by meeting 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 2019, 597,121 people – about 1 in 7 Oregonians – received SNAP benefits worth almost $73 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 2019, a total of 20,660 families (single and two parents 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 2019, 7,878 families received ERDC subsidies for 14,903 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 2019-21 biennium, General Fund supports 14.4% of this budget, Other Funds, 3.9%, and Federal Funds, 81.7%. The SSP adopted budget includes an additional $40 million in federal TANF dollars that were transferred in from Child Welfare; however, this revenue increase is masked by an updated projection tied to SNAP benefit payments that indicates the revenue is expected to be $275 million lower in 2019-21.

The major source of Other Funds is $114.3 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 to offset costs and preserve General Fund.

Nonlimited SNAP benefits are the single largest source and use of Federal Funds in SSP. SNAP benefits are projected at $1.9 billion for the 2019-21 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 caseload peaked at 444,277 households in 2012 and dropped to 351,717 by July 2019, which is a decrease of 92,560 or 20.8%. The projected biennial caseload average for 2019-21 is 324,970 households, which is 10.9% lower than the 2017-19 biennial average forecast. While the economy and job growth influence the caseload, 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 not yet final, a proposed rule change would eliminate categorical eligibility under SNAP. Oregon uses this eligibility pathway, which lets states simplify and streamline eligibility determination processes for multiple state and federal assistance programs by aligning the programs' eligibility rules. This change would mean that some current recipients would lose benefits and DHS would need to redetermine eligibility for SNAP, incurring additional administrative costs.

The federal government may also change criteria for awarding of funds, as the U. S. Department of Agriculture did in the most recent round of grant funding offered for summer SNAP food benefits. In both 2017 ($5.7 million) and 2018 ($7.5 million), Oregon received additional federal SNAP funds to provide $30 per month to eligible children during the summer to increase access to food. For the 2019 grant cycle, the federal agency made the grant more competitive and prioritized states that had not previously been a grant recipient; as a result, Oregon's application was denied.

Along with an 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 those 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, along with passing required background checks before they can become DHS providers and receive payment.

For the 2019-21 biennium, TANF caseloads are projected to average 17,405 families per month, which is about 7.9% lower than the average monthly caseload for 2017-19. Another demographic trend affecting program participation is the number of Oregon households with children; while the overall population is increasing, over the last decade or so the number of households with children has decreased from 416,133 in 2008 down to 410,152 in 2017.

<u>Legislatively Adopted Budget</u>

SSP's 2019-21 legislatively adopted budget is $448.7 million General Fund and $3,110.8 million total funds, with 2,498 positions (2,494.60 FTE). The total funds budget is 4.4% below the 2017-19 legislatively approved budget; this is due to lowering SNAP benefit expenditures by $275 million to align the budget with projected benefit payments. This Federal Funds Nonlimited expenditure limitation makes up more than 60% of SSP's total budget. Federal Funds limited expenditures increased by a net $68 million, primarily due to moving $40 million in federal TANF funding from the Child Welfare program to Self Sufficiency.

The General Fund budget is 13.5%, or $53.5 million, above the prior biennium; the change is primarily due to current service level growth attributed to base salary adjustments, inflation, phase-ins and phase-outs, and fund shifts. Regarding fundshifts, $20 million General Fund backfills one-time TANF carryforward funding that was used to balance the 2017-19 budget. Budget savings due to cost per case adjustments, statewide charges for services, lower PERS rates, adjusted rates for services provided by the Department of Justice, and transfers of work out of SSP total $4.8 million General Fund and more than offset new program costs.

The legislatively adopted budget maintains core programs, including the TANF One and Two-Parent programs and related services. A permanent resolution to ongoing suspensions in TANF requirements (these were put into place just prior to the last recession), which represent $12.2 million in 2019-21 General Fund cost avoidance, was addressed by HB 3183 (2019). Along with eliminating the need for TANF statute suspensions, the measure establishes a stronger focus on family stability, effective engagement, mental health and substance use, and housing considerations for TANF families.

As noted previously, $40 million in federal TANF funding is moved from Child Welfare to SSP; this is made possible due to a corresponding investment of $40 million General Fund in the originating program. The adjustment helps address a problem in which non-program or "administrative" spending within the TANF program, for both state and federal expenditures, was exceeding the federal limit (or cap) of 15%. The $40 million Federal Funds is redeployed into several strategies, some of which received statutory guidance through language in HB 2032 (2019), to sustain the program and help TANF families:

- Retaining $13 million in the TANF program to cover caseload costs; while caseloads are still trending downward, the pace of decrease has slowed since the current service level was originally developed.
- Applying $7.5 million to continue benefits to eligible TANF participants who are over the 60-month time limit.
- Using $3.5 million for a vocational training and education pilot program targeted at families receiving TANF in rural locations (HB 2032).
- Backfilling $1.5 million General Fund in the Job Opportunity and Basic Skills (JOBS) program; this frees up General Fund to be sent to OHA which will administer a mental and behavioral health pilot program to award grants to up to four coordinated care organizations to assess potential gaps in access by TANF recipients to mental and behavioral health services (HB 2032).
- Sending $10.5 million to the Housing and Community Services Department (HCSD) for a TANF housing pilot; applicants will receive grant funds through a competitive process and pair those dollars with funds from similar programs to provide TANF families with housing assistance for longer time periods (HB 2032).
- Adding $4 million to $1 million in federal TANF funds already going to HCSD for the housing stabilization program. The program provides temporary (up to four months) assistance to stabilize housing for low-income, eligible families who are homeless or at-risk of losing their housing.

The adopted budget includes an overall ERDC funding component of $179.8 million total funds ($65.5 million General Fund and $114.3 million Other Funds). This resource level, which is a 12% increase over the 2017-19 legislatively approved budget, is expected to allow the program to serve an average of 8,230 families over the biennium. The caseload estimate is based on a cost per case of $910 per month, but that cost will likely end up higher as rate increases, effective January 1, 2019, fully begin to impact child care costs; this will potentially have a chilling effect on the number of families and children served.

The bulk of the funding increase will help cover those rate increases, which were bargained in 2017-19, with consideration for additional revenues available at the federal level. That federal funding authorization also includes a no-supplant clause limiting flexibility to redirect state funds supporting the program. In addition, about $2.7 million of the budget will be used, on a one-time basis, to support a pilot incentive program for child care providers offering evening, night, and weekend child care.

New spending includes a one-time investment of $2 million General Fund associated with HB 2508 (2019), which directs DHS to award grants to eligible refugee resettlement agencies providing services to refugees who reside in Oregon. Two food-related, one-time General Fund proposals were approved; $1.3 million to help the Oregon Food Bank acquire and distribute food and $1.5 million for the Double Up Food Bucks program, which matches SNAP benefits used at farmers' markets and helps clients take home more healthy food. Another budget item, primarily related to SNAP, adds $1.7 million Federal Funds expenditure limitation and 7 limited duration positions (7.00 FTE) to continue work under several federal grants.

Other budget actions include the transfer in of the Runaway and Homeless Youth program from Child Welfare into SSP. The move is expected to improve service delivery and provide youth access to additional services, such as employment training; it results in an increase of $3.2 million total funds and one position (1.00 FTE). Positions and funding are also transferred out from SSP to other programs, mostly driven by a need to correct the placement of Oregon Health Plan (OHP) Medicaid eligibility positions transferred to DHS SSP in an action taken during the 2018 session. The net change is a reduction of nine positions (9.00 FTE) and $1.7 million total funds.

Another set of positions that were part of the transfer of the OHP Medicaid eligibility move are also transferred out but instead of to other agency programs, these go back to OHA since their work does not have a close nexus with eligibility activities. These 21 positions (21.00 FTE) support the Community Partnership Outreach Program and Cover All Kids efforts; the move drives a decrease of $4.9 million General Fund ($10.1 million total funds).

Child Welfare

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	396,011,542	601,121,145	705,519,866	775,531,048
Other Funds	18,124,012	33,823,561	40,052,237	38,997,487
Federal Funds	498,823,061	540,082,805	591,606,400	537,988,342
Total Funds	**$912,958,615**	**$1,175,027,511**	**$1,337,178,503**	**$1,352,516,877**
Positions	2,590	2,920	3,139	3,274
FTE	2,544.82	2,761.73	3,081.46	3,222.90

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.
- 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 2019-21 biennium, General Fund supports 57.3% of the budget and Federal Funds cover 39.8% of the budget; Other Funds contribute less than 3%. General Fund is picking up a higher percentage than in prior biennia due to moving federal TANF funds to Self Sufficiency and replacing those with state dollars ($40 million).

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; this source is estimated to cover about $300 million in agency expenditures for 2019-21. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2019-21, the state's base FMAP is estimated at 61.36%; at this rate, which is used for Title IV-E match as well as for Medicaid, Oregon pays 38.64% of allowable program costs for eligible children. Most administrative functions are paid 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 $41 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 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. he 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) 2018, CW received 84,233 reports of suspected child abuse or neglect; 43,317 of those reports were referred for further investigation. Out of those assessments, 8,167 were founded for abuse and involved 12,585 victims; 2,906 (23.1%) were removed from their homes. The number of victims represent about 1.4% of the estimated 869,457 Oregon children aged 0 to 18 in 2018. A little less than half (46.3%) of the victims are age 6 or younger.

The number of reports received in 2018 is the largest annual number over the last decade; the lowest volume in that time period was 64,305 reports for FFY 2013. With launch of the Oregon Child Abuse Hotline (ORCAH) in April 2019, the number of reports coming in during 2019 are expected to be much higher; this new centralized reporting function saw a dramatic increase in the number of contacts and reports, which was expected based on experience in other states.

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 2019-21 is forecasted to be 21,456, or about 1% below the average caseload of 21,680 children in 2017-19. Within the projected caseload, 7,077 children, or 33% of the caseload, are expected to be in out-of-home placements; these include both foster and residential care settings.

In FFY 2018, 11,445 children spent at least one day in some kind of foster care, a slight decrease from the 11,645 children in the prior year. Family foster care is the primary setting. There were 4,082 certified foster family homes in 2018 and over 49% of the children placed in family foster care were placed with relatives. The agency reports that 59.7% of children who left foster care during 2018 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 2018, 666 adoptions were finalized, which is slightly lower than the 673 adoptions finalized in 2017; the count of finalized adoptions has not exceeded the 1,000 mark since 2009. A total of 454 children exited foster care and entered into a guardianship, which continues an increase in this program in recent years; most children go to guardianship with relatives. In almost all cases, adoptive parents or guardians receive assistance payments. These payments help 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.

Media coverage, interim reporting, legislative interest, and the Secretary of State audit on foster care continue to highlight concerns about the CW programs. While some investments have been made, it is difficult to assess to what extent the agency is making progress on child safety, provider oversight, policy alignment, program performance, system accountability, and culture change. In April 2019, the Governor issued Executive Order 19-03 to help more effectively address these issues. An oversight board and external contractor have been established to provide guidance and implement recommendations. Some of this work is likely to result in additional funding requests during the 2019-21 biennium.

Another dynamic very likely to drive cost is implementation of the federal Family First Prevention Services Act (FFPSA); this federal law was passed in February 2018, but related federal guidance and instructions were not issued until late fall 2018. The Act makes substantial changes to federal financing of child welfare and has significant implications for the structure of Oregon's program. A state statutory framework consistent with FFPSA was created in SB 171 (2019) but many unknowns around program requirements, solutions, and associated costs still remain. These will need to be identified prior to July 2020, when changes around residential services are scheduled to take effect. Areas for consideration include the following: developing appropriate in-state placements for children, minimizing out-of-state placements, returning children to Oregon, recommending how providers can successfully move to the residential program model, identifying rate adjustments or other financial changes needed to meet new requirements, and ensuring crisis placement capacity.

Legislatively Adopted Budget

At $775.5 million General Fund and $1,352.5 million total funds, the 2019-21 legislatively adopted budget for Child Welfare is 29% General Fund and 115.1% total funds higher than the prior biennium's budget. The position count of 3,274 (3,222.90 FTE) reflects a 12.1% increase over 2017-19. Budget increases are primarily tied to maintaining base positions at risk of loss due to federal TANF funding realignment, adding new positions to address workload issues, and investing in efforts to help foster families.

A total of 272 positions (271.50 FTE) are added between biennia to help stabilize the program; the position mix was developed using mandated caseload workload model calculations coupled with a "best practices standard" approach. As the Department is working to update the workload model and workload continues to be a challenge for caseworker recruitment and retention, these resources are not expected to fully meet program needs. The budget also includes 16 (14.08 FTE) Mentoring, Assisting, and Promoting Success (MAPS) positions, which provide mentoring and other supports to first-year caseworkers; these positions augment 50 added in the prior biennium.

Other investments targeted at helping improve program performance and capacity include:

- $8.9 million General Fund and 46 permanent positions (38.51 FTE) for the Oregon Child Abuse Hotline. The agency's move to this centralized screening operation was initially accomplished by realigning existing positions and staff over an eight month period ending in early April 2019; more staff are needed to help handle a high volume of calls and mitigate caller wait times.
- $3.8 million total funds and 17 positions (17.00 FTE) to develop a data-informed statewide foster family recruitment and retention team. A centrally located program manager will oversee a recruitment specialist located in each of the agency's 16 districts.
- $3.1 million General Fund ($7.8 million total funds) will pay for the statewide expansion of a former pilot program called Keeping Foster and Kin Parents Supported and Trained. The program provides weekly training to small groups of parents; the sessions cover parenting techniques and skills tailored specifically to each cohort's needs.

- $2.3 million General Fund ($3.9 million total funds) and 17.60 FTE to continue the Leveraging Intensive Family Engagement program at its current, limited level in five counties. The program was initially scheduled to be phased out by October 2019 since it was funded with expiring federal Title IV-E Waiver funds. The program supports monthly case planning meetings, enhanced family finding activities, parent mentors, and team collaboration.

To signal support for ongoing program improvement efforts, a $10 million reservation within the general purpose Emergency Fund was created for the Department to access to help pay for efforts or initiatives not covered within the existing budget upon evidence that the additional funding will result in demonstrative improvements in Oregon's child welfare system.

Consistent with state law, the Department of Justice began providing full legal representation to DHS caseworkers during 2017-19. In the 2019-21 legislatively adopted budget, the last phase of program implementation is funded with $12.7 million General Fund ($23.3 million total funds). The funding covers program rollout costs for Clackamas, Clatsop, Marion, Multnomah, Union, and Washington counties, along with other position-related adjustments needed to adequately operate the program. Another investment continues planning and initiation work related to the OR-KIDS system, which is the state's primary child welfare data system, with 3.8 million General Fund ($7.5 million total funds) and nine permanent positions (9.00 FTE). Federal rules require these systems to meet new standards regarding data quality and modularity.

A $50 million General Fund statewide behavioral health investment package tied to SB 1 (2019) has two Child Welfare components. The first is $3.5 million General Fund ($8.5 million total funds) to pay for therapeutic foster care home recruitment, training, and support. The second appropriates $4 million General Fund to the Emergency Board to help increase capacity for non-Medicaid in-home services under the Family First Prevention Services Act. In addition to allowing federal dollars to help pay for prevention services, this new federal law also limits federal funding for children placed in a setting that is not a foster family home unless the setting is a qualified residential treatment program. The restriction is expected to affect services offered by existing providers, many of whom were already having difficulty attracting and retaining staff even before addressing new programmatic requirements. A related budget note directs DHS to assess and report back on workforce issues associated with the residential provider community and ways to help surmount regulatory barriers or other challenges.

To help pay for investigation and system changes driven by SB 155 (2019), which deals with sexual misconduct reporting requirements in schools, the budget includes $1.1 million General Fund and 7 positions (5.25 FTE). In addition, technical adjustments and position transfers are also accounted for in the budget, along with standard reductions due to changes in statewide charges for services, lower PERS rates, and adjusted rates for attorney services provided by the Department of Justice.

Three budget reduction actions were approved to help make General Fund available for other program needs. These reduce the enhanced foster care budget by $2.3 million General Fund; decrease the Strengthening, Preserving, and Reunifying Families budget by 50% (just under $7 million General Fund); and trim the budget for Focused Opportunities for Children Utilizing Services placements by 25% ($6.3 million General Fund, $6.6 million total funds). This last program is supported mostly by General Fund and primarily serves children with specialized needs placed out-of-state; as the state develops in-state placements to help meet those needs, federal dollars can potentially be leveraged to help cover placement costs and stretch the state dollars further.

Vocational Rehabilitation

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	24,965,718	29,533,924	35,629,792	35,576,784
Other Funds	2,315,297	2,337,472	2,436,795	3,012,926
Federal Funds	83,526,341	85,660,464	83,014,868	83,842,517
Total Funds	**$110,807,356**	**117,531,860**	**$121,081,455**	**$122,432,227**
Positions	260	259	258	261
FTE	258.09	258.25	257.04	260.04

Program Description

Vocational Rehabilitation (VR) 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 17,203 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 2019-21 biennium, General Fund supports 29.1% of this budget; Other Funds, 2.5%; and Federal Funds, 68.5%. 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 2019-21, 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 continues an increase (up from 12.5%) in the percentage going to the Commission that began in the 2017-19 biennium. That change placed 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. However, each agency can apply for federal reallotment dollars and successfully received these funds in the past. Under the federal law, if a state is not able to fully spend its annual vocational rehabilitation funds, then those dollars are made available to other states through a reallotment application process; applicants must have adequate state match to draw funds.

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 2019-21, if one is needed, this action positions the agency for reinstituting a wait list in a manner that minimizes both client and program impacts.

The agency's budget has been growing since the 2013-15 biennium 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 IDD program on helping these clients find community-based employment rather than participate in sheltered work settings.

The Department is still adapting to 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. 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. It also required shifting from annual to quarterly reporting, which has a workload impact, and ensuring 15% of the federal budget is used to serve youth.

Legislatively Adopted Budget

At $122.4 million total funds, the legislatively adopted budget for VR is 4.2% above the 2017-19 approved budget level. However, embedded in the modest total funds increase is a 20.5% increase in General Fund (from $29.5 to $35.6 million), primarily due to $4.9 million General Fund added to backfill one-time federal reallotment funds received during the 2017-19 biennium. While another successful round of reallotment funding is expected in 2019-21, those funds are expected to cover a shortfall driven by inflation and other budget drivers; the additional General Fund is also needed to help meet MOE and match requirements to draw reallotment funds.

The budget continues essential services with an emphasis on improving employment outcomes for people with intellectual and developmental disabilities under the Employment First initiative and managing program changes driven by WIOA. Consistent with recent practice, $4.5 million Federal Funds expenditure limitation is included to spend one-time FFY 2018 reallotment revenue carried forward from the 2017-19 biennium; this action offsets a projected federal funding shortfall.

To collaborate with school districts in providing pre-employment transition services for all eligible students, the budget includes $0.6 million Other Funds expenditure limitation and 3 permanent positions (3.00 FTE). Budget savings due to statewide assessment changes, lower PERS rates, and adjusted rates for attorney services provided by the Department of Justice are also reflected in the budget.

Aging and People with Disabilities

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	866,700,420	1,018,971,037	1,207,637,026	1,207,013,810
Other Funds	187,143,856	265,740,017	218,081,806	250,840,663
Federal Funds	1,958,014,226	2,255,802,269	2,435,466,260	2,488,511,056
Total Funds	**$3,011,858,502**	**$3,540,513,323**	**$3,861,185,092**	**$3,946,365,529**
Positions	1,348	1,488	1,457	1,570
FTE	1,337.90	1,407.26	1,447.97	1,516.87

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 through 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 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.

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 13% of the Medicaid long-term care cases. In-home cases represent about 53% of the caseload and community-based facility cases, 34%.

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. With funding initially approved in the 2013-15 biennium as a pilot project, younger individuals may also be served by OPI.

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. During 2019-21, APD expects more than 227,000 older Oregonians will receive OAA services.

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 by 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 staff who work in the Type A AAAs and for 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 Disability Insurance (SSDI) and SSI programs; staffing for this work is 100% federally funded.

Revenue Sources and Relationships

General Fund makes up 29% of the APD budget, which is about a 1% increase over the prior biennium. Most of the program’s General Fund is used to match federal Title XIX Medicaid and other Federal Funds.

Other Funds revenue is 6.4% of the overall budget. The Other Funds come primarily from nursing facility Medicaid provider taxes, clients’ contributions towards their care, and estate recoveries. The nursing facility provider tax, described in statute as the Long Term Care Facility Assessment, is used to match federal Medicaid funds for facilities that serve Medicaid clients, allowing for higher levels of nursing facility reimbursement. The provider tax is currently authorized through June 30, 2026; the previous 2020 sunset was extended in HB 4162 (2018).

Federal Funds make up 63.1% of the budget and are predominately Medicaid funds. Federal matching funds for the Medicaid program are determined by the FMAP rate, which is the federal share of eligible program expenditures. The program match rate changes each federal fiscal year and depends on Oregon’s per capita income relative to other states. Under the K Plan, the state draws down an additional 6% in Medicaid funds for some APD services.

Most Medicaid administrative functions 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 AAA 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 aged 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. From 2000 to 2019, this same population grew by 230,174, or 43%. The Department of Administrative Services' Office of Economic Analysis projects the 65+ age group will grow by 7.6% during the 2019-21 biennium, reaching over 819,668 by July 1, 2021. As of July 2019, APD was serving 34,730 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 2019 caseload forecast projects APD will serve an average of 35,070 clients over the 2019-21 biennium, which is 1% (or 340 clients) higher than the 2017-19 biennial average forecast.

Given the demographic projections, the issue of sustainability of the long-term care system has been a recurring topic of discussion. Currently, APD is updating its strategic plan in collaboration with stakeholders to address a variety of challenges, such as how to serve an older population having lower levels of retirement savings and experiencing poorer health than prior generations.

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 workers, 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.

<u>Legislatively Adopted Budget</u>
At $1,207 million General Fund and $3,946.4 million total funds, the legislatively adopted budget for APD is 18.5% General Fund and 11.5% total funds greater than the 2017-19 legislatively approved budget.

The General Fund budget is 18.5% or $188.1 million above the prior biennium; the change is primarily due to current service level growth attributed to base salary adjustments, inflation, phase-ins and phase-outs, mandated caseload, and fundshifts. Regarding caseload, while the pace of overall caseload growth is forecasted to slow in 2019-21 compared to recent history, the trend is steadily upward and shifts between lower cost (in-home) and higher cost (nursing facility) caseloads can heavily influence the budget; exceptional inflation and caseload costs account for about $75 million of the net General Fund increase. With APD heavily reliant on Medicaid, the FMAP rate change accounts for an increase of $46.4 million General Fund and a corresponding decrease in Federal Funds expenditure limitation. The roll-up of positions and rate increases funded for only a portion of the 2017-19 biennium are driving about $20 million in new General Fund costs.

The budget includes $5.8 million total funds and 19 permanent positions (19.00 FTE) to implement two actions approved at the December 2018 meeting of the Emergency Board. Fifteen positions help comply with a federal mandate requiring all nursing facility complaint investigations to be handled by APD's Nursing Facility Survey unit; federal funding pays for 75% of the work. The other four positions will be used to embed case managers in hospitals to more quickly assess and place hospitalized individuals needing long-term care Medicaid services upon discharge. The full cost of the positions will be paid for by the hospitals.

In the nursing facilities program, $32.2 million from a projected carryforward balance in the long-term care facility assessment (Other Funds revenue) is used in place of the same amount of General Fund on a one-time basis; the General Fund, along with federal matching funds, is then used to pay for several program needs:

- Rate increases, at a cost of $52.6 million total funds, for assisted living facilities, residential care facilities, memory care facilities, and in-home care agencies. Rates were increased 5% on July 1, 2019 and will increase another 5% on July 1, 2020. Providence ElderPlace funding will also increase by 5% on July 1, 2019.
- Dollars are also provided ($15.3 million total funds) to increase rates for adult foster homes within the APD program; these rates are also subject to collective bargaining but are expected to increase by 10% on January 1, 2020 and by 5% on July 1, 2020.
- Twenty full-time permanent community-based care surveyor positions (10.00 FTE; phased in July 1, 2020) to help reduce a backlog of inspections and keep up with facility oversight.
- To address workload issues and a workload model that is out of sync with duties in both APD and AAA local offices serving seniors and people with physical disabilities, the equivalent of 143 positions (71.50 FTE; phased in July 1, 2020) are added; most of these are case manager positions. The current workload model does not reflect job duties and expectations that have significantly changed over the last six years with increasingly complex consumers, high expectations from federal partners, and frequent policy changes.
- Two permanent full-time positions (1.76 FTE) were added to promote the effective use of emergency medical services by residents of licensed long-term care settings and support efforts of the quality measurement council.

The adopted budget also includes $28.1 million General Fund to maintain Oregon Project Independence at existing levels and $3.7 million General Fund to continue the caregiver training program through a relationship with Oregon Care Partners. To support work under HB 2600 (2019), which deals with communicable disease prevention in long-term care facilities, the budget includes 3 positions (1.14 FTE) and $270,759 Other Funds expenditure limitation. General Fund in the amount of $125,000, along with $125,000 Federal Funds expenditure limitation, was added to cover DHS's costs for contracting with a vendor to develop recommendations for assessing and monitoring services provided by home care workers; this is needed to comply with SB 669 (2019).

In addition to reflecting budget savings due to changes in statewide charges for services, lower PERS rates, and adjusted rates for attorney services provided by the Department of Justice, the budget contains one reduction action eliminating $1.3 million General Fund paying for evidence-based health promotion programs operated through local AAAs.

Intellectual and Developmental Disabilities

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	750,571,318	880,473,687	997,381,374	1,054,370,325
Other Funds	39,769,895	28,113,604	28,964,390	28,647,741
Federal Funds	1,592,951,485	1,810,396,130	1,883,854,298	2,001,975,798
Total Funds	**$2,383,292,698**	**$2,718,983,421**	**$2,910,200,062**	**$3,084,993,864**
Positions	958	914	913	917
FTE	893.69	909.70	912.42	916.30

Program Description

The Intellectual and Developmental Disability (IDD) program serves more than 28,000 people (8,650 children and 19,420 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 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 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 service 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 assist adults and children who are living at home and receiving 24-hour supports or are 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 and work in the group homes serving these clients.

<u>Revenue Sources and Relationships</u>
General Fund makes up 34.2% 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 2019-21 biennium, the average Medicaid match rate is estimated at 61.36%; at this rate, Oregon will pay 38.65% 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. Based on the Spring 2019 forecast, the 2019-21 case management (overall client count) biennial average caseload forecast is 30,592 clients, which is 9.8 % higher than the 2017-19 average forecast of 27,860 clients; the budget accounts for this caseload growth and associated cost per case increases.

While the forecast represents the best estimate currently available, it continues to be an area of concern and volatility. Under 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 seek services is challenging. Over time, it is likely this influx of children will age into the adult caseload.

Lawsuits or other legal actions have historically impacted the program, such as the class action settlement agreement for a 2012 lawsuit (*Lane v. Brown*) that alleged Oregon unnecessarily segregated 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 instituted 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.

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 2019-21 legislatively adopted budget for this program area is $1,054.4 million General Fund and $3,085 million total funds; the General Fund portion is 19.8% higher than the 2017-19 legislatively approved budget while the total fund amount increased by 13.5% between biennia.

Caseload and cost per case changes based on the Spring 2019 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 for IDD reflects continued caseload growth and budget pressure due to expanded services and costs per case for children and adults, primarily resulting from implementation of the K Plan.

To help cover associated case management costs for CDDPs and Brokerages, the budget includes an additional investment of almost $13 million General Fund ($22.9 million total funds) which equates to an increase of 149.55 FTE. However, due to General Fund constraints, the funding provided is $10 million General Fund less than the level requested by the agency. The case management entities were hoping for a much larger funding increase due to a newly updated workload model that captures complex case management activities and efforts required to use a new assessment tool, the Oregon Needs Assessment. The adopted budget does represent a 20% increase from 2017-19 levels for these services.

To support higher wages for direct support professionals, the adopted budget includes $30 million General Fund ($91.8 million total funds) to increase IDD provider rates (Adult and Children 24 Hour Residential, Attendant Care, Supported Living, Non-Medical Transportation, Day Support Activity, Employment Path, and Small Group Employment), with the goal of raising wages as close as possible to $15.00 per hour by the end of the 2019-21 biennium. Since the program is also transitioning to new rate models during the biennium, a budget note provides direction about limiting rate increases under the old models to no more than 4% and applying this investment in a manner that prioritizes supporting individuals with the highest need.

Another investment supports SB 1 (2019) efforts, which center around improving the effectiveness and efficacy of state and local systems of care that provide services to youth with specialized needs. The measure, which was the product of an interim work group, establishes a System of Care Advisory Council to develop and maintain a state system of care policy and a comprehensive, long-range plan for a coordinated state system of care that encompasses public health, health systems, child welfare, education, juvenile justice, and services and supports for mental and behavioral health and people with intellectual or developmental disabilities. For IDD, the associated funding component adds $4.9 million General Fund ($10.5 million total funds) and one permanent position (0.88 FTE) to provide enhanced foster care services to about 140 youth and the development of small group home settings for 12 youth; these services are being called "host homes."

Other budget changes include eliminating $3 million General Fund for the receipt of enhanced federal match for the program's payment and reporting system (eXPRS), which is contingent on approval from the Centers for Medicare and Medicaid Services (CMS). In addition to standard reductions due to changes in statewide charges for services, lower PERS rates, and adjusted rates for attorney services provided by the Department of Justice, the budget reduces funding for community housing maintenance and job coaching to make General Fund available for other needs.

Central Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	29,097,958	35,751,624	35,453,622	49,192,572
Other Funds	1,102,870	46,080,695	1,671,017	44,907,776
Federal Funds	19,476,084	173,572,073	38,807,942	180,890,447
Total Funds	**$49,676,912**	**$255,404,392**	**$75,932,581**	**$274,990,795**
Positions	180	290	196	244
FTE	178.62	250.75	195.12	240.54

Program Description
The Central Services budget captures cross-program and executive-level policy and program work. Efforts are organized into the following offices: Director and Policy; Human Resources; Budget, Planning, and Analysis; Public Affairs; Equity and Multicultural Services; Reporting, Research, Analytics, and Implementation; Program Integrity; Business Information Services; and the Integrated Eligibility Project. These functions support agency leadership initiatives and guide programs in carrying out the Department's mission.

Revenue Sources and Relationships
The 2019-21 legislatively adopted budget is 17.9% General Fund, 16.3% Other Funds, and 65.8% 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 and is also constrained by block grant capacity.

Budget Environment
Programs falling under the Central Services budget structure are heavily influenced by agency leadership interest and focus. For example, during the 2017-19 biennium, the reporting office was established and an emphasis on

transformation led to an extensive internal assessment of the agency conducted by the director of organizational development (a new role). However, to support initiatives such as these, the agency has frequently double filled positions to hire additional staff rather than wait for the Legislature to approve new positions. Early in the 2019-21 biennium budget development, DHS indicated the agency would need 68 positions (68.30 FTE) to clean up double fills and correctly align positions in Central Services; the request and its cost of $11.7 million General Fund ($20.3 million total funds) did not make it through the Governor's budget stage.

Unlike program workload models, there is no model or mechanism in place for the agency to "earn" positions in Central Services as agency programs grow in size or complexity; while that growth may truly be driving work for central functions, there are challenges in empirically determining an appropriate level of staffing, especially when a portion of the work is assigned directly by agency leadership. This mismatch between budget and how DHS operates is unlikely to be resolved without legislative action, although with the state's new human resources information system (Workday) double fills no longer exist; positions are either budgeted or non-budgeted.

<u>Legislatively Adopted Budget</u>

For Central Services, the 2019-21 legislatively adopted budget is $19.2 million General Fund, $275 million total funds, and 244 positions (240.54 FTE). The General Fund increase from the prior biennia is $13.4 million (37.6%), while the total funds increase is $19.6 million (7.7%). If costs related to the Integrated Eligibility (IE) project are disregarded, the General Fund increase is only $2.6 million, or about 6.4%.

The adopted budget funds the final development phase, implementation, and transition to Maintenance and Operations (M&O) for the IE project. This effort integrates enrollment and eligibility activities for several DHS programs: Non-MAGI Medicaid, SNAP, TANF, and ERDC into the OregonONEligibility (ONE) system used by OHA. Due to schedule changes and issues with the user acceptance testing vendor, the 2019-21 cost estimate for the project increased over the budget development timeframe; some costs also shifted between biennia. The project's current cost estimate and approved amount for the 2019-21 biennium is $200.6 million total funds. This overall amount includes state staff costs of $20.7 million, $94 million for contracted information technology services, $11.2 million for payments to OHA for its project work, and $5.8 million for debt service. Other elements addressed in the project plan include cost allocation, contingency, legacy system work, hosting services, disaster recovery, and security enhancements. The state staffing component consists of 33 positions (30.78 FTE) and primarily supports business analytics, system program support, and training activities; 17 of the positions (14.78 FTE) are limited duration for system rollout and short-term training needs.

The bulk of the project budget, at $139.7 million, or 70%, of 2019-21 costs, is supported by Federal Funds; this is because enhanced federal funding (74% federal/26% state) was approved for the Design, Development, and Implementation (DDI) phase of the work, which is expected to be completed by January 31, 2021. Once the system transitions to M&O in the last six months of the biennium, the federal cost share decreases. General Fund supports $16.9 million of project costs and debt service; the bulk of the state share will be covered by $43.9 million in ending balance or new proceeds from Article XI-Q bonds. Project debt service is paid out of the SAEC budget structure.

The budget also includes $2 million General Fund ($4.1 million total funds) and 5 positions (4.64 FTE) for 1) continuation of planning and implementation activities for modularization of the systems supporting Oregon Medicaid, and 2) ongoing operations and maintenance, including software licensing cost, of the Centralized Abuse Management system.

Technical adjustments and position transfers are also accounted for in the budget, along with standard reductions due to changes in statewide charges for services, lower PERS rates, and adjusted rates for attorney services provided by the Department of Justice. A $500,000 General Fund ($1 million total funds) reduction to services and supplies for the Business Information Services Office helps balance the agency's overall budget.

Shared Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	122,707,504	139,935,177	148,896,729	147,436,690
Total Funds	**$122,707,504**	**$139,935,177**	**$148,896,729**	**$147,436,690**
Positions	650	690	677	680
FTE	630.29	670.94	671.39	672.89

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 administrative services for the two agencies are provided cost-effectively without duplication of resources. 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, 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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	208,913,317	242,085,478	283,564,977	284,657,702
Other Funds	11,598,228	41,814,705	38,997,670	39,622,034
Federal Funds	148,683,510	175,370,405	218,968,795	199,357,891
Total Funds	**$369,195,055**	**$459,270,588**	**$541,531,442**	**$523,637,627**

Program Description

The State Assessments and Enterprise-wide Costs (SAEC) budget structure contains assessments and charges paid by all state agencies, which include various Department of Administrative Services' (DAS) assessments/charges, Central Government Service Charges, and assessments for Oregon State Library services and Secretary of State audits. The budget also reflects expenditures for covering Shared Services' program components in both DHS and OHA, which includes position costs supporting those functions; no positions or FTE are budgeted directly in this program unit. The budget also includes agency-wide and/or centralized costs, such as rent, utilities, mass transit taxes, unemployment, debt service, and computer replacements.

Revenue Sources and Relationships

For the 2019-21 legislatively adopted budget, revenues are split 54.4% General Fund, 7.6% Other Funds, and 38.1% Federal Funds; the funding mix is dependent on the nature of specific assessments or charges being billed and is regulated by the agency's cost allocation model. Reliance on General Fund is expected to increase as the purchasing power of capped federal funding sources continues to erode. The program budget contains $31 million Other Funds expenditure limitation 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

Assessments supporting third parties, such as DAS, are generally fixed costs over which the agency has no control; these also directly tie to the legislatively adopted budget for the receiving agency. While per unit charges for many services are set by the statewide price list, the agency does have some influence over usage and resulting costs. Usage is influenced by agency staffing levels; more employees can drive higher information technology costs or a need for more facility square footage. Assessments based on FTE are also affected by the number of agency positions. Some expenditures, such as mass transit taxes and performance audit charges, cannot be covered with federal dollars and rely primarily on state General Fund.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $284.6 million General Fund and $523.6 million total funds is 17.6% General Fund and 14% total funds more than the 2017-19 legislatively approved budget. The largest components, collectively at $31.9 million or 75%, of the $42.6 million General Fund increase between biennia are statewide assessments, shared services funding, and debt service. The latter expenditure totals $22.7 million General Fund for 2019-21, primarily for debt service on Article XI-Q bond proceeds that are being used to help finance the Integrated Eligibility project; the amount includes both prior and projected bond issuances.

Starting in 2019-21, the SAEC budget includes $1.6 million General Fund ($2.2 million total funds) to pay for contested case hearing services provided by the Office of Administrative Hearings. The office, which is housed at the Employment Department, bills agencies for actual expenses based on usage and cost but does provide an estimate for pricelist and budget building purposes. The budget for these services was formerly in the DHS Central Services program unit.

An increase of $2.2 million General Fund is expected to help cover performance audit billings from the Secretary of State. Federal rule changes no longer allow federal dollars to be used for this purpose, but they can still help pay for financial audits related to federally funded programs.

Adjustments to the shared services funding line include the addition of $1.3 million General Fund ($1.7 million total funds) to pay for investigation and system changes driven by SB 155 (2019), which deals with sexual misconduct reporting requirements in schools. A reduction of $500,000 General Fund ($1 million total funds) accounts for changes made in the budget for business information services; this was an action taken to help balance the overall agency budget. Technical adjustments and transfers are also reflected in the adopted budget.

LONG TERM CARE OMBUDSMAN

Analyst: Byerly

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,929,019	6,401,552	7,212,903	7,728,112
Other Funds	679,823	908,057	954,159	845,016
Total Funds	**$5,608,842**	**$7,309,609**	**$8,167,062**	**$8,573,128**
Positions	25	27	27	30
FTE	24.50	25.50	26.50	29.14

Overview

The Long Term Care Ombudsman (LTCO) program is a federally-mandated consumer protection program supporting a network of certified volunteers who investigate and resolve complaints for people living in Oregon's nursing facilities, residential care facilities, assisted living facilities, and adult foster homes. The program was first established in 1981 within the Governor's Office and eventually became an independent state agency in 1985; in statute the agency is referred to "the office" of the LTCO. Over time the agency's responsibilities have expanded.

Since 2013, the agency has operated the Residential Facilities Ombudsman (RFO) program which addresses the needs of care facility residents who have a mental illness or a developmental and/or intellectual disability. In 2015, the Legislature passed SB 307 which requires LTCO to also advocate for residents of the independent living section of a Continuing Care Retirement Community.

The agency continues to face program development and caseload challenges in ramping up new work approved by the Legislature during the 2014 legislative session, when the Oregon Public Guardian (OPG) program was established under SB 1553. 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

Agency programs rely primarily on General Fund, which pays for 90% of expenditures. The remaining 10% of the budget is covered by federal Older American Act (OAA) funds and civil penalties 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 work under the Senior Medicare Patrol (SMP) program, which is a federal fraud protection effort.

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 2019-21, potential clients are expected to exceed 53,000 people living in almost 4,500 licensed facilities. Continued growth in the number of clients served is expected well into the future as the population ages; however, the complement of beds by facility type may shift or fluctuate. Annually, the LTCO program handles more than 7,200 requests for assistance from consumers, the public, facility staff, and other agencies. The ability to provide public guardian services is particularly constrained by the budget; even with additional positions approved in 2017-19 the program is estimated to be able to meet only about 10-15% of the statewide need for public guardian and conservator services.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $7.7 million General Fund is 20.7% more than the 2017-19 budget of $6.4 million General Fund, primarily due to the addition of three new deputy ombudsman positions that were approved in HB 3413 (2019). In addition, the adopted budget includes roll-up costs for two OPG positions that were added during the 2018 session. The overall budget, at $8.6 million total funds, is a 17.4% increase above the prior biennium funding level and supports 30 positions (19.14 FTE). The budget also includes standard statewide adjustments (decreases of $60,461 General Fund and $8,161 Other Funds) in various assessments and charges for services, legal rates, and retirement system rates. More details on the budget are included in the subsequent program narratives.

Long Term Care Ombudsman

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,601,908	4,708,514	5,234,413	5,771,922
Other Funds	679,823	908,057	954,159	845,016
Total Funds	**$4,281,731**	**$5,616,571**	**$6,188,572**	**$6,616,938**
Positions	20	21	21	24
FTE	19.50	20.50	20.50	23.14

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 45,000 residents of over 2,100 licensed nursing homes, assisted living and residential care facilities, and adult foster homes. Between 160 and 200 certified volunteers advocate for these clients, monitor facilities, and respond to resident complaints or problems. Twelve professional staff (11.64 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 has historically been 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. In fiscal year 2018, volunteers donated 26,122 hours of service on behalf of long term care residents. Over that same time period, the program assisted residents with 4,813 complaints ranging from concerns about food portion size to issues with medication and discharge processes.

The RFO program was created by SB 626 (2013) and is responsible for assisting individuals with intellectual or developmental disabilities or mental health conditions with advocacy related to residential care issues. The program has 8 positions (7.50 FTE) to reach an estimated 8,000 residents of over 2,400 residential facilities. The RFO volunteer component is growing slowly but the program expects to complete face-to-face connections with all homes over the 2019-21 biennium.

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

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $5.8 million General Fund is 22.6% more than the 2017-19 legislatively approved budget of $4.7 million General Fund; total funds increased by 6.3% between biennia. The disproportionate total funds net increase is due to a decrease of $100,982 Other Funds expenditure limitation tied to SMP program revenue estimates; these are not expected to cover projected current service level needs. As a result, 2019-21 program activities will likely be more limited than in prior biennia unless federal support for the program is increased. Under this program, volunteers help protect Medicare beneficiaries from the economic and health-related consequences of Medicare fraud, errors, and abuse.

About half of the General Fund increase between biennia is due to HB 3413 (2019), which appropriated $575,670 General Fund to pay for three new deputy long term care ombudsmen positions (2.64 FTE). With these new positions, which are effective October 1, 2019, the agency will have a total of 10 deputy ombudsmen; this is also the maximum number of deputy ombudsmen set out in the measure. The additional program capacity provided is expected to support enough volunteers to cover 100% of long term care facilities.

As noted previously, the adopted budget includes reductions tied to statewide adjustments; these are not anticipated to create any financial challenges. However, the program will need to continue to manage its budget carefully, especially around expenditures related to personal services, travel, information technology, and volunteer supports.

Oregon Public Guardian

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,327,111	1,693,038	1,978,490	1,956,190
Total Funds	**$1,327,111**	**$1,693,038**	**$1,978,490**	**$1,956,190**
Positions	5	6	6	6
FTE	5.00	5.00	6.00	6.00

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 service providers, produces training materials, and works with local programs and organizations to identify less restrictive alternatives to guardianship.

The OPG program was approved in SB 1553 (2014); the funding level authorized was only enough to pay for a very limited program – serving about 60 people – and was not expected to support anywhere near the potential full need for services. In 2012, a report from the Public Guardian and Conservator Task Force estimated that between 1,800 and 3,400 Oregonians needed services.

During the 2013-15 biennium, the program got off to a slow start because it took several months to find and hire the first program lead. Other initial, and to a certain extent ongoing, challenges included development of service contracts, costs associated with diversion activities, and legal expenses. In addition, due to legislative uncertainty about program service delivery options and associated funding levels, during the 2017-19 biennium the agency was directed to assess the OPG program and report on that work prior to the 2018 legislative session.

The report was made in January 2018 and included updates on efforts to minimize legal costs, streamline banking processes, maximize caseload capacity, tap local partners, and leverage pro bono services. In response to this work, the Legislature approved two new permanent, full-time deputy public guardian positions; the positions are stationed in rural areas of the state, helping overcome barriers to contracting in certain areas, providing maximum support for volunteers, and serving clients.

The current program funding level supports a caseload of about 100 clients; 80 of these are served directly by agency deputy guardians and the remainder through current or prospective contracts. During 2019-21, OPG plans to establish a volunteer component that will serve an additional 8 to 10 clients. With the program at maximum capacity, a waitlist is maintained to move quickly on to new cases as current clients exit the program. Most exits are usually due to death, but sometimes a client may legally regain decision-making ability or an alternate guardian for a client is found.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $2 million General Fund is 15.5% above the 2017-19 legislatively approved budget of $1.7 million General Fund; the increase reflects standard inflationary adjustments and the costs associated with the phase-in of the two deputy public guardian positions authorized for only half of the prior biennium. With this last change, the program has a total of 6 positions (6.00 FTE): the Oregon Public Guardian and Conservator, one administrative assistant, and four deputy public guardians.

While the budget does not include funding for program-identified needs around more staff and expanded access to services, it does represent the most robust level of program support since the OPG was authorized. In addition to managing a demand for services that exceeds capacity, another budget challenge for the program has been covering employee salaries. Due to pay equity and salary negotiations tied to deputy public guardian skill sets, the program has offered salaries outside those fitting within typical position budgeting practices.

For 2019-21, the Legislature also approved two new key performance measures for the OPG program; the program did not have any formal measures previously. One measure addresses client stability by looking at the number of hospitalizations, emergency room visits, arrests, or psychiatric holds for OPG clients, and the other looks at the number of potential clients diverted to other, less restrictive service alternatives.

PSYCHIATRIC SECURITY REVIEW BOARD

Analyst: MacDonald

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,658,376	3,047,827	3,229,021	3,198,150
Other Funds	6,090	2,248	--	--
Total Funds	**$2,664,466**	**$3,050,075**	**$3,229,021**	**$3,198,150**
Positions	11	11	11	11
FTE	11.00	11.00	11.00	11.00

Overview

The mission of the Psychiatric Security Review Board (PSRB) is to protect the public by ensuring that persons who have a psychiatric illness and/or intellectual disability and have been placed under the Board's jurisdiction as a result of committing a crime receive the support they need to reduce the risk of future dangerous behavior. The PSRB was created in 1977 to supervise adults in Oregon who are found guilty of a crime except for insanity (GEI). Since then, the Board's statutory charge has been broadened to also include supervision of juveniles found responsible except for insanity (REI) and certain adults who are civilly committed; processing relief petitions for persons barred from possessing a firearm due to a mental health determination; and conducting sex offender classification and relief hearings for GEI sex offenders.

In addition to the state employee staff who administer the operational aspects of the PSRB, the Governor appoints a 10-member board to monitor and help manage the on-going progress of individuals under its jurisdiction. The Board consists of a five-member panel for adults and a five-member panel for juveniles. The Board's responsibilities include holding administrative hearings; overseeing treatment outcomes for GEI clients placed in the Oregon State Hospital; coordinating the treatment and case management of clients placed on conditional release; helping clients safely reintegrate into communities; and communicating with the victims of crimes.

Adults adjudicated GEI represent the largest population under the PSRB's jurisdiction and can be committed to the Oregon State Hospital or conditionally released to a lower level of care, ranging from secure residential treatment facilities to independent living. The Board determines which type of facility is appropriate based on both a clinical and risk assessment, including the level of treatment, care, and supervision required. Conditional release is conferred on a client once the Board determines he or she can be adequately supported and treated with the supervision and treatment available in the community.

Revenue Sources and Relationships

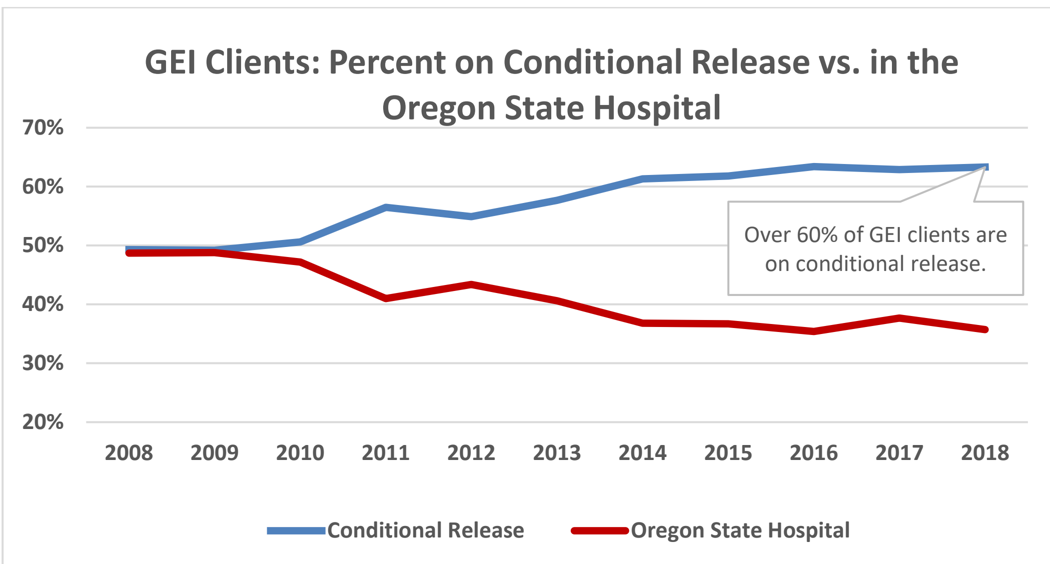
The PSRB's operations are funded entirely with General Fund resources. Until 2017-19, the PSRB supported some staff training activities with a small amount of Other Funds revenue received from a one-time award by the American Psychiatric Association. This award has now been fully expended.

Budget Environment

The PSRB budget includes only the funding necessary to support the Board and monitor the individuals placed under its jurisdiction, nearly all of which reflects salaries and benefits for program's 11 state employees. The PSRB's success in helping clients manage their mental illness and reduce the risk of recidivism largely relies on the continuum of care being adequately funded through other state and local programs. Most of the resources to provide treatment for these individuals are part of the Oregon Health Authority budget for the Oregon State Hospital and community mental health programs. A small number of individuals also receive services through the developmental/intellectual community programs supported in the Department of Human Services budget.

Despite the expansion of the Board's responsibilities over the past several years, the PSRB's primary workload remains focused on adults adjudicated GEI. SB 65 (2017) enhanced this workload by broadening the PSRB's jurisdiction over GEI clients. SB 420 (2011) had changed the jurisdiction of certain GEI offenders by placing those who committed a "tier one" crime under the jurisdiction of the PSRB and those who committed a "tier two" crime under the jurisdiction of the Oregon State Hospital Review Panel while committed to the Oregon State Hospital. SB 65 (2017) eliminated the State Hospital Review Panel and consolidated the oversight of all GEI persons to the PSRB as of July 1, 2018. This resulted in the transfer of 75 individuals to the PSRB's jurisdiction, as well as any future GEI individuals who would have previously been under the jurisdiction of the State Hospital Review Board. The bill also directed the Board to develop a restorative justice program to assist in the recovery process for crime victims. The PSRB absorbed these changes within existing staffing levels. The agency has not increased staff to address workload issues since 2011.

The total number of GEI adults either on conditional release or at the Oregon State Hospital has declined from over 700 in 2008 to 604 as of September 2019. The treatment system for these clients has also changed significantly during this timeframe commensurate with increased focus on serving more individuals with mental illness in the community. Prior to 2008, more GEI adults were treated at the State Hospital than the number placed on conditional release. This trend has reversed with a significant decline in the GEI population at the State Hospital; now more than 60% of the GEI clients supervised by the PSRB are on conditional release.



The PSRB's census levels are driven not only by factors like state policy, but also by the progress of individuals with a mental illness, especially a severe mental illness. According to data published by the federal Substance Abuse and Mental Health Administration in 2016, 23% of adults in Oregon have a mental illness compared to 18% nationwide. Also, 4% of adult Oregonian's live with a serious mental illness, such as schizophrenia, major depression, or bipolar disorder. On average, only 48% of Oregonians with any mental illness received mental health services each year from 2011 through 2015. Although these statistics represent only a small part of Oregon's behavioral health experience, they highlight the challenges faced by the PSRB and its community stakeholders. When the demand for behavioral health services increases and community services are not sufficiently funded or available, individuals unable to obtain the assistance they need to manage their mental illness are more likely to have an episode resulting in engagement with law enforcement and the court system.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Board is $3.2 million General Fund, which represents a 4.9% increase from the 2017-19 legislatively approved budget. The budget includes 11 positions (11.00 FTE) and funds all current programs.

PUBLIC SAFETY

PROGRAM AREA

DEPARTMENT OF CORRECTIONS

Analyst: Neburka

Agency Totals

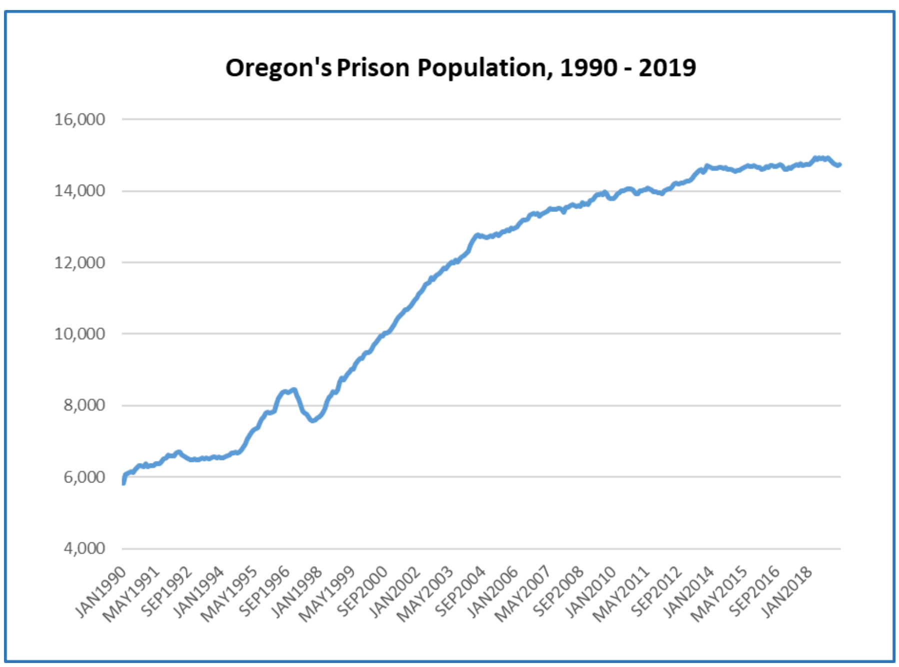
	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,604,985,118	1,749,428,249	1,835,848,829	1,853,930,976
Other Funds	50,911,308	82,154,515	44,460,244	95,327,375
Other Funds (NL)	27,167,985	--	--	--
Federal Funds	4,134,712	5,094,910	4,533,582	4,533,582
Federal Funds (NL)	1,123,728	1,038,513	940,120	940,120
Total Funds	**1,688,322,851**	**1,837,716,187**	**1,885,782,775**	**1,954,732,053**
Positions	4,562	4,600	4,600	4,731
FTE	4,493.39	4,570.77	4,575.36	4,699.06

Overview

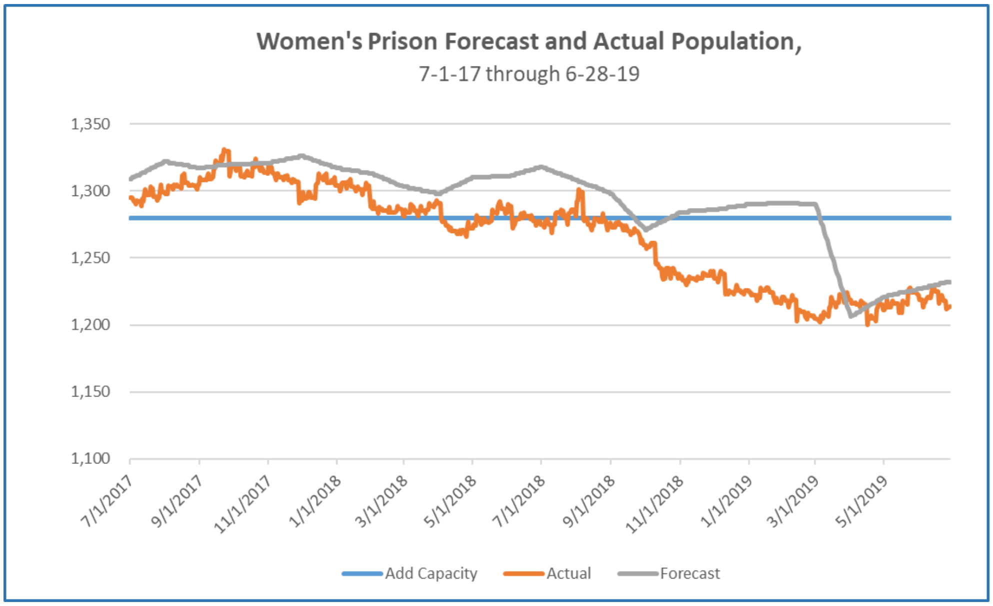
The Department of Corrections (DOC) has two primary functions: prison operations and responsibility for the state community corrections system. The Department operates 14 correctional institutions – thirteen for men and one for women – that incarcerate adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The budget is based on the April 2019 prison forecast and on other changes made by the Legislature in prior biennia that affected the prison population. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned to prison terms of 12 months or less, and all felony offenders under community supervision, to the counties. Funds are provided to counties for the cost of supervising these offenders.

Budget Environment

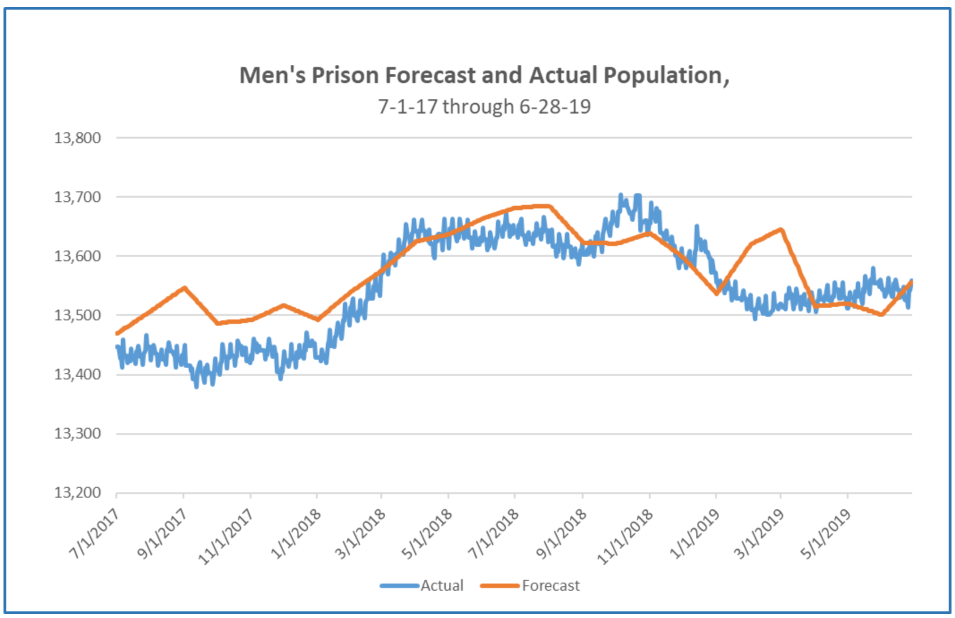
In the ten years following passage of Ballot Measure 11 in 1994, Oregon's prison population grew by 80%. Between 1998 and 2008 the Department of Corrections built six prisons and expanded one, bringing more than 7,800 additional prison beds on line. Prison population forecasts prior to 2013 projected 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 felon 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. These two measures are primarily responsible for the leveling off of the prison population shown in the chart above. Absent these changes, the April 2013 prison population forecast projected a total of 16,395 adults in custody by 2023, or 1,760 more than the actual number of incarcerated adults at the end of August 2019.



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; as of the most recent prison population forecast (April 2019), the need for new prison capacity falls outside of the ten-year forecast window, meaning it is not anticipated to be needed for at least another ten years. All law changes that occurred prior to the current prison population forecast are estimated to have reduced the use of prison beds by 711 at the end of the forecast period (April 2029).



The Department of Corrections is not funded to operate all available prison beds. Based on the 2019-21 legislatively adopted budget and despite populations declining, its institutions are over capacity, with a total of 788 emergency beds in use throughout the system. DOC has relied 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 Budgeted Beds During 2019-21					
		Total Budgeted Capacity: 14,712		E-Beds	
Facility	**Location**	**Minimum**	**Medium**	**6/30/2019**	**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	30	1,283
OSP - Minimum	Salem	-	-	-	-
Totals		**4,259**	**10,453**	**788**	**15,500**

Notes:

- Deer Ridge Medium is operating as a Minimum. It has 209 General Population and 97 Special Purpose beds still available, for a total capacity of 1,292. The Deer Ridge Minimum facility is mothballed and has 657 total beds across General Population and Special Purpose.

- OSP-Minimum 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 (306 additional beds at DRCI and 657 beds at DRCM) and the mothballed Oregon State Penitentiary Minimum (176 beds).

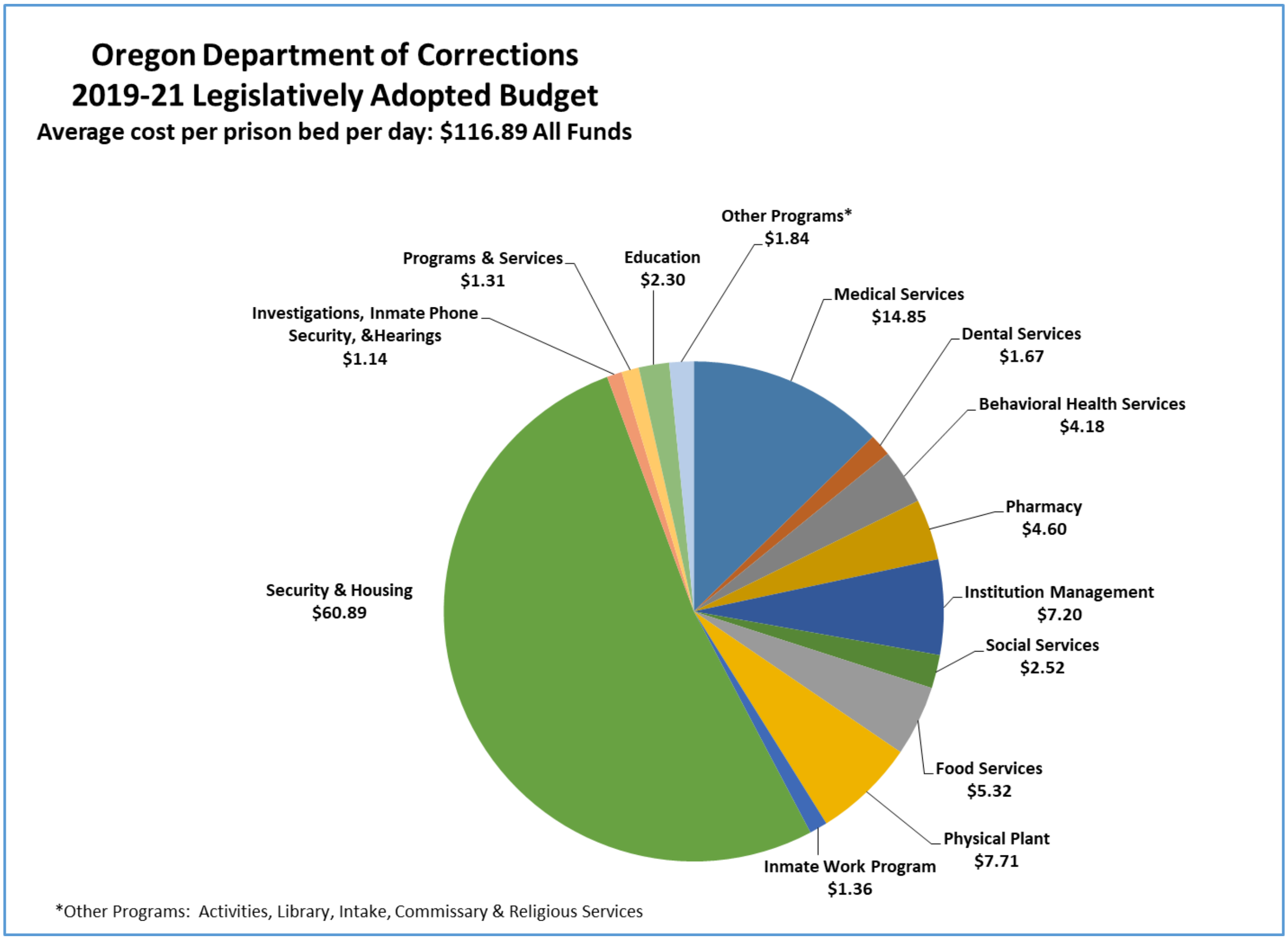
- As of the end of 2017-19, 788 emergency beds (E-Beds) are in use. This is approximately 100 fewer E-beds than were in use during the 2015-17 biennium.

- 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 can become particularly acute at the Coffee Creek Correctional Facility in Wilsonville, the state's only prison for women. Between May 2016 and July 2018, the population of adults in custody topped the number set by the Department as the threshold limit beyond which additional capacity would be required. During that period, DOC managed its female population with the use of emergency beds and early release beds at certain county jail facilities. Eligibility for the Family Sentencing Alternative pilot program created by HB 3503 (2015) was expanded in 2017 (HB 3078), which has modestly increased the program's utilization. The women's prison population has continued to decrease since July 2018, and is forecast to remain well below maximum capacity throughout the 2019-21 biennium and for the ten-year forecast period.

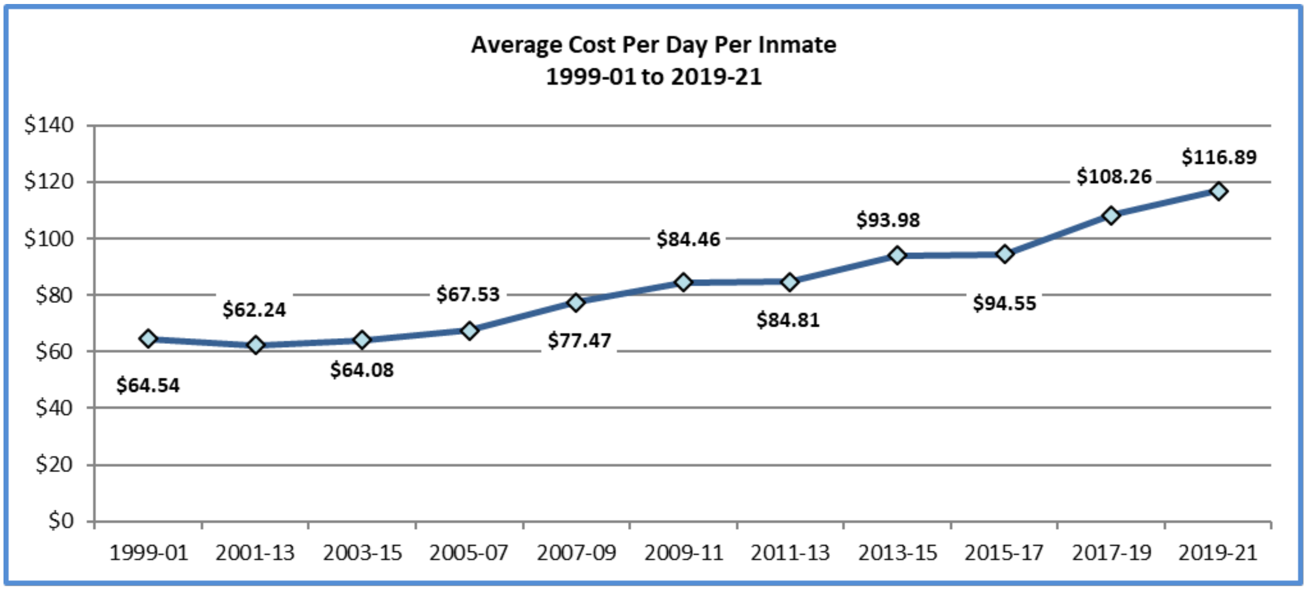
DOC states that it has reached the limit for double occupancy cells in its general population units. There are, however, special unit beds where double occupancy cells are not always feasible, and some single cells exist for those with special needs. All facilities, except the Oregon State Penitentiary, 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 as many as 788 emergency beds per day will be used during the 2019-21 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 2019-21 legislatively adopted budget is $116.89, or a 7.98% increase from the 2017-19 legislatively adopted cost per day of $108.26. 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 $1.32 billion total funds.

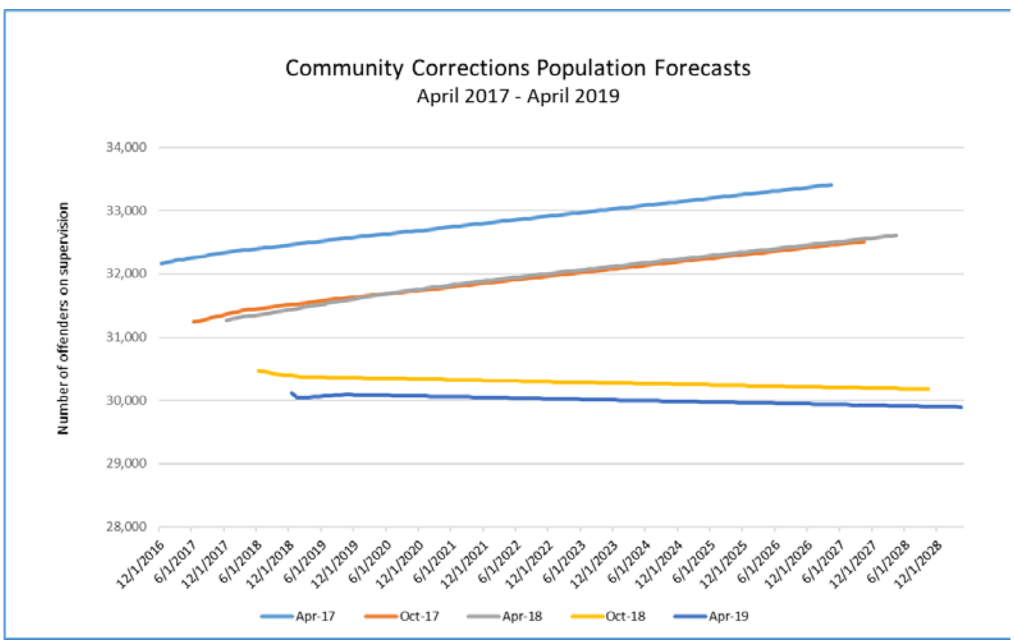


The components of the cost-per-day are reflected in the display above. The chart does not include the community corrections budget; debt service for the agency's facilities; department-wide costs of administering the agency, including the overall management; state government service charges; financial and personnel staff; and information systems costs. The total cost excluded from the calculation is $636.6 million total funds.

For context, the following display shows average cost per inmate per day from 1999-2001 to the 2019-21 legislatively adopted budget.

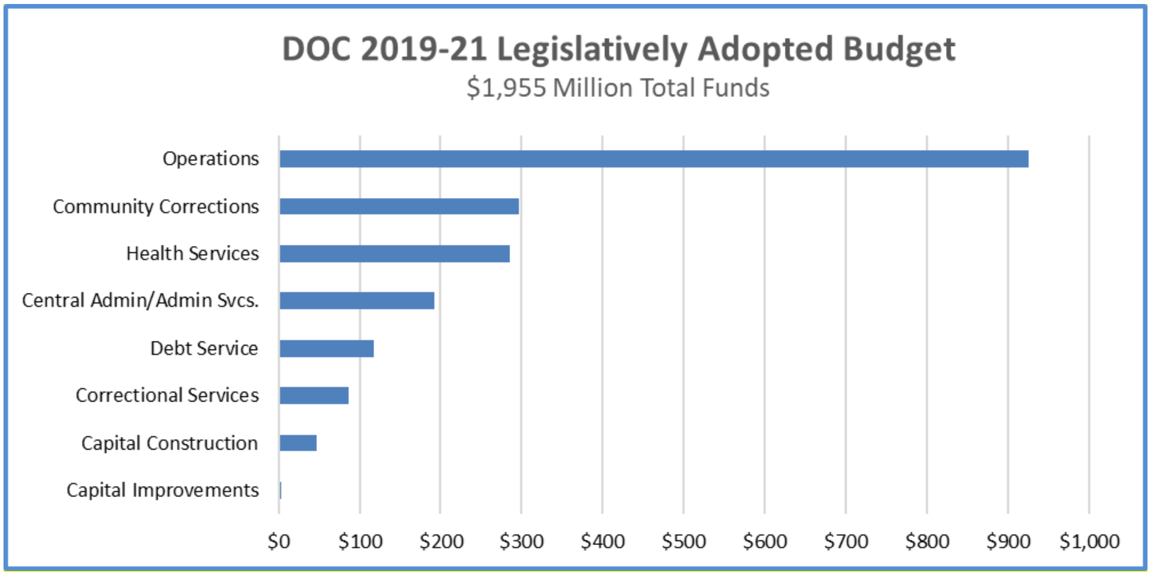


Community Corrections caseloads have decreased, and are forecast to be relatively flat over the next ten years. Based on the April 2019 corrections population forecast, DOC anticipates the felony probation and parole/post-prison supervision caseload to total 30,057 by the end of the 2019-21 biennium. Due to the population decline, the statewide current service level of funding to counties for community corrections is $5.1 million less in 2019-21 than in the 2017-19 biennium, and the reduction is not evenly distributed, as funding is allocated to counties based on the number of offenders supervised in each county.



ORS 423.486 requires the Department to conduct a study every six years of the actual cost and time required to provide community corrections management, support services, supervision, and sanctions for offenders. The most recent study was completed in 2018. It revealed changes in practice including more time spent on preparation and planning for offenders to leave prison and return to their communities, more time being spent on pre-sentence assessments, and nearly twice as much time being spent on intakes and new cases. The associated financial study - based on actual expenditures by each county on its community corrections programs and services in FY 2018 - estimated an increase in the capitated rate by which funding is distributed, from $12.07 per offender per day to $14.25 per offender per day, an estimated statewide increase in funding of $50.7 million, which was not approved by the Legislature.

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



The 2019-21 legislatively adopted budget for DOC is $1.85 billion General Fund, $1.95 billion total funds, and 4,731 positions (4,699.06 FTE). General Fund is 8.6% higher than the 2017-19 legislatively approved budget, and total funds are 8.9% higher. Other Funds of $95.3 million include $4.6 million of Criminal Fine Account revenue. The budget includes both operational improvements and investments in infrastructure, including:

- $1,500,000 General Fund to begin implementation of an electronic health records system.
- $2,480,000 General Fund for computer lifecycle replacements and software licenses.
- $12,556,301 General Fund and five positions (5.00 FTE) to address a significant backlog of deferred maintenance in DOC's prisons and administrative buildings.
- $1,625,260 General Fund for annual fire suppression system testing.
- $1,650,000 General Fund to upgrade the Corrections Information System.
- $7,949,899 General Fund and 40 positions (37.84 FTE) to pilot hospital security watches at three DOC institutions.
- $1,069,388 General Fund and ten positions (7.50 FTE) to pilot the use of Certified Medication Aides for dispensing daily medications to adults in custody.

The Legislature approved $47.1 million in Other Funds capital construction expenditure limitation for Article XI-Q bond proceeds for the agency to continue addressing its deferred maintenance and capital construction requirements, and to upgrade and replace camera and radio system infrastructure. Bonds will be issued throughout the biennium, requiring new debt service of $1,956,975 General Fund in the 2019-21 biennium.

These funding changes are discussed in more detail in subsequent sections.

Operations Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	758,177,774	838,323,878	902,933,370	906,715,182
Other Funds	16,028,931	14,103,137	16,066,245	18,155,429
Total Funds	**774,206,705**	**852,427,015**	**918,999,615**	**924,870,611**
Positions	3,319	3,331	3,331	3,381
FTE	3,277.28	3,316.92	3,320.34	3,368.18

Program Description

The Operations Division is responsible for the security and operation of the 14 existing adult correctional institutions. Functions of this Division include institution operations, security, food service, inmate work, inmate intake, and inmate transportation.

Revenue Sources and Relationships

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 2019-21 legislatively adopted budget of $924.9 million total funds is 8.5% higher than the 2017-19 legislatively approved budget. This budget includes the following:

- The addition of $7.9 million General Fund and 40 ongoing correctional officer positions (37.84 FTE) to provide adequate staffing for hospital security transports and watches. This program will pilot at the Coffee Creek Correctional Facility in Wilsonville, at the Eastern Oregon Correctional Institution in Pendleton, and at the Two Rivers Correctional Institution in Umatilla.
- $2.1 million Other Funds expenditure limitation and 10 positions (10.00 FTE) to supervise adults in custody on work crews, funded through contracts for services.
- A reduction of $2 million General Fund to bring operational expenditures into alignment with the April 2019 prison population forecast.
- Statewide budget reductions totaling $2.3 million total funds, including reductions to State Government Service and Attorney General charges, PERS rate adjustments, and other assessments.

Additionally, HB 2515 (2019) added $102,108 to the Operations Division to fund the purchase of a variety of sanitary supplies required to be provided to all adults in custody at no charge.

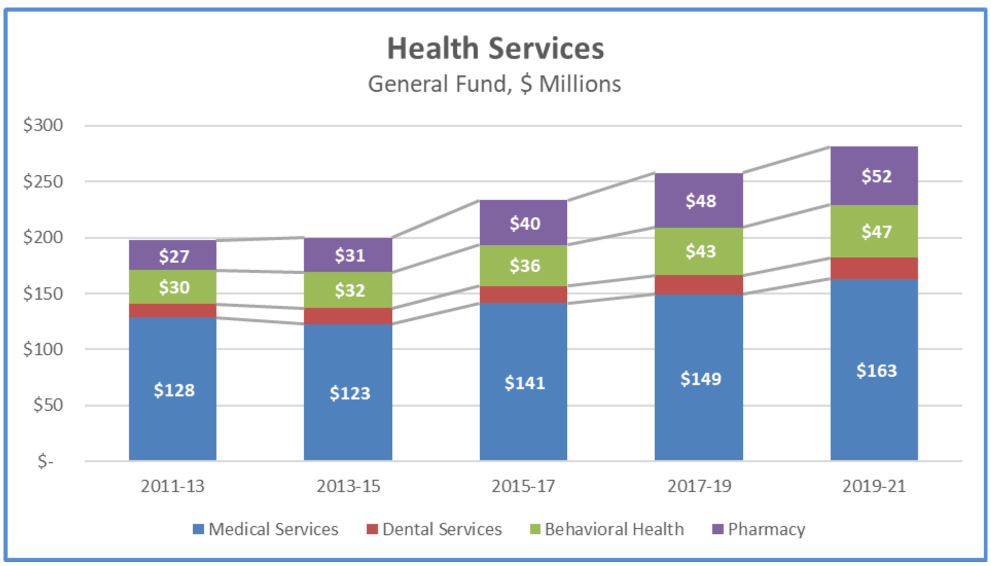
Health Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	241,137,196	267,842,509	279,055,505	281,279,524
Other Funds	531,073	667,029	715,055	715,055
Federal Funds	3,430,585	3,353,513	3,494,360	3,494,360
Total Funds	**245,098,854**	**271,863,051**	**283,264,920**	**285,488,939**
Positions	571	571	571	635
FTE	549.97	558.10	559.27	618.13

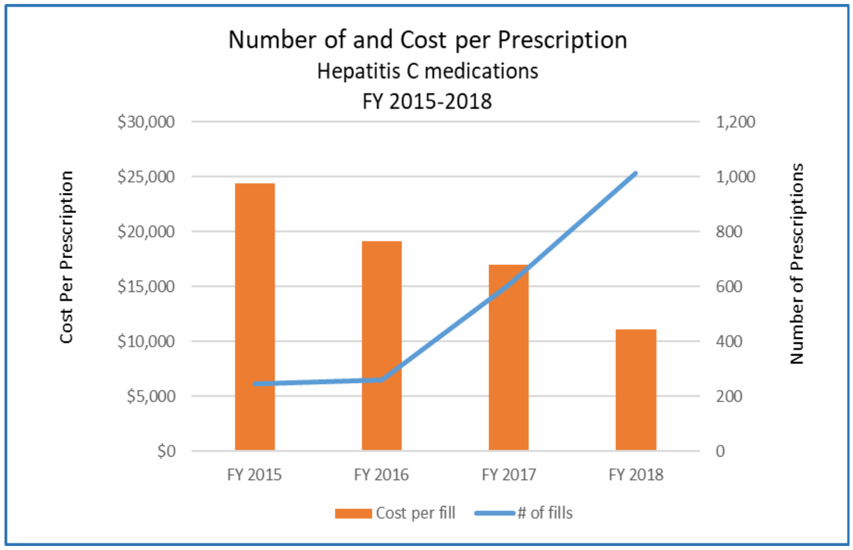
Program Description

Adults in custody are constitutionally entitled to health care at the community standard of care. The Department provides medical, dental, mental health, and pharmacy services using a managed care model offering a limited benefit package including on-site primary care, controlled access to specialists, and a restricted medication formulary. Dental facilities in twelve prisons provide a full range of dental services, emphasizing emergency treatment and preventive services. Mental and behavioral health programs provide a range of services to address mental illness, developmental disabilities, and co-occurring disorders (mental illness and substance abuse).

Health care is a significant expense for the Department. The Health Services budget includes the employees that provide health services at all the DOC prisons, as well as the cost of services purchased outside of the institutions. The level of service varies significantly by location, with a much more extensive set of services at larger facilities like the Oregon State Penitentiary and the Two Rivers Correctional Institution. 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 cost of the remaining 1% of services, which are provided outside of DOC facilities, is roughly a quarter of the total Health Services unit's spending based on 2017-19 spending.



Health care provided in Oregon prisons is primarily a General Fund expense, as incarcerated individuals are not eligible for federal health care programs (Medicaid and Medicare) unless care is provided in a hospital outside of prison. The inmate population is aging, and many inmates arrive at DOC without having received adequate health care. DOC doctors and nurses provide more than 1,250 patient care contacts each day statewide; the agency operates five on-site infirmaries containing a total of 76 infirmary beds. Behavioral Health Services treatment programs have the capacity to treat 263 men and 102 women in custody at any given time, targeting services to those with severe or persistent mental illness.



A disproportionately large number of adults in custody 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. The cost of Hepatitis C medications has dropped considerably, but the number of prescriptions written has increased dramatically since 2015.

<u>Revenue Sources and Relationships</u>

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 come from the federal State Criminal Alien Assistance Program (SCAAP) to offset the General Fund expenses of undocumented felons. This SCAAP grant, however, funds a very small (and decreasing) percentage of the total cost of incarcerating undocumented felons.

<u>Legislatively Adopted Budget</u>

The 2019-21 legislatively adopted budget of $285.5 million total funds is 5% greater than the 2017-19 legislatively approved budget. This budget includes the following:

- The addition of $1.5 million General Fund to begin the implementation of an Electronic Health Records system. The agency currently maintains a cumbersome and inefficient system of paper health care records.
- $1.1 million General Fund and 10 positions (7.50 FTE) to pilot a program to use Certified Medication Aides (CMAs) rather than Registered Nurses (RNs) to administer daily medications to adults in custody at the Coffee Creek Correctional Facility.
- Statewide budget reductions totaling $0.5 million General Fund, including reductions to State Government Service and Attorney General charges, PERS rate adjustments, and other assessments.

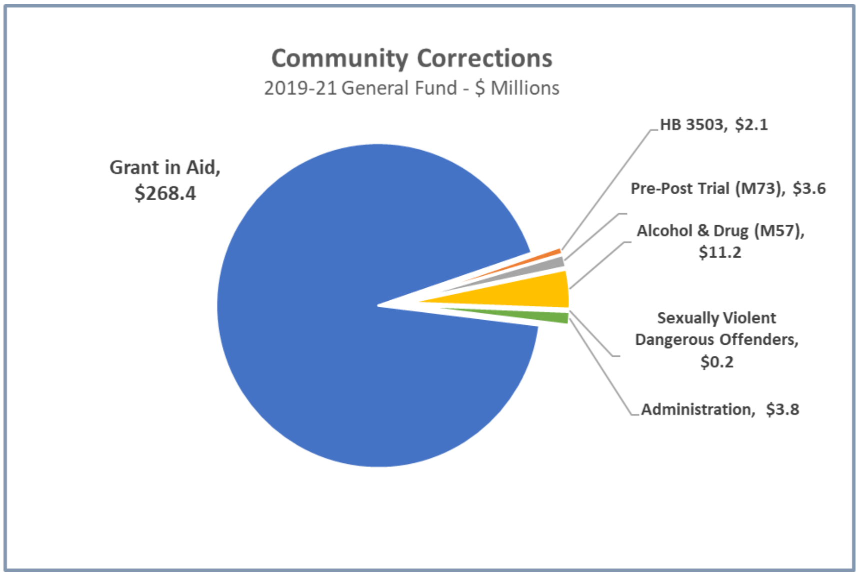
Additionally, SB 488 (2019) added $114,182 to the Health Services Division to fund the purchase of influenza vaccines adequate to provide a flu shot to all adults in custody at no charge, if they wish to receive the vaccine.

Community Corrections

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	268,858,477	295,653,578	291,993,081	289,226,178
Other Funds	6,572,423	6,973,560	7,252,638	7,252,638
Total Funds	**275,430,900**	**302,627,138**	**299,245,719**	**296,478,816**
Positions	64	74	73	76
FTE	64.12	74.33	73.00	76.00

Program Description

This budget provides funding to 34 counties for administering the community corrections program. DOC operates community corrections programs in Linn and Douglas counties. 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 a term of incarceration for 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 (repeat driving under the influence of intoxicants) offenders.

Revenue Sources and Relationships

General Fund resources for Grant in Aid to counties are 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 spend varying amounts on their community corrections programs 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 ($4.6 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.

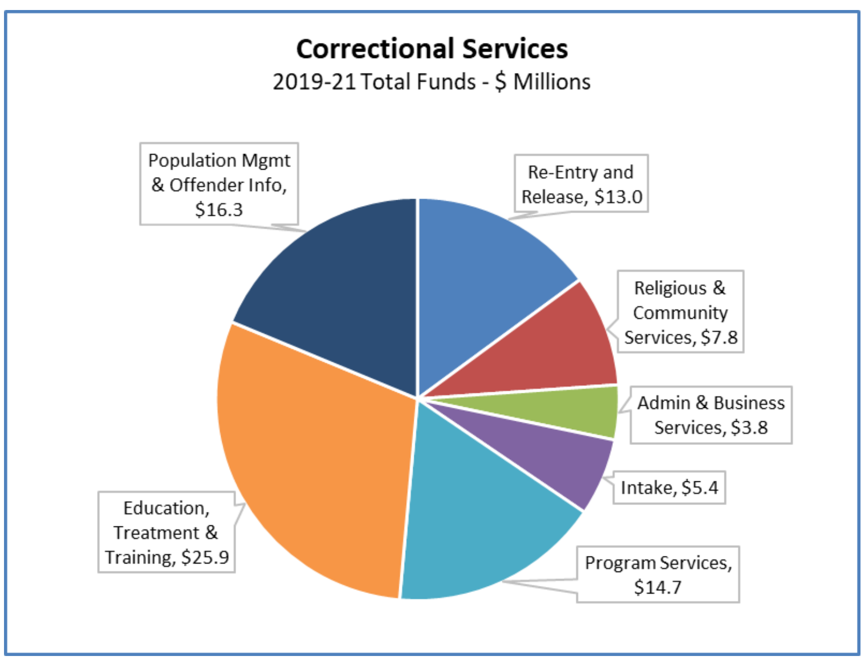
Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $296.5 million total funds is 2% less than the 2017-19 legislatively approved budget. A total reduction of $14.4 million from the 2017-19 legislatively approved budget brings operational expenditures into alignment with the April 2019 community corrections population forecast; a reduction of $2 million brings the budget for SB 395 (2011) jail reimbursements to counties into alignment with program expenditures; and a reduction of $54,462 implements statewide budget adjustments, including reductions to State Government Service and Attorney General charges, PERS rate adjustments, and other assessments.

Correctional Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	62,790,232	69,863,625	76,859,930	76,723,649
Other Funds	8,866,707	11,056,558	10,209,756	10,209,756
Federal Funds	--	741,924	--	--
Total Funds	**71,656,939**	**81,662,107**	**87,069,686**	**86,933,405**
Positions	199	206	210	211
FTE	195.68	205.50	209.50	210.50

Program Description
The Correctional Services Division (formerly named 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 adults in custody 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.

This Division offers the Parenting Inside Out program, an evidence-based parenting management skills program specifically designed for criminal justice-involved parents and families. The program is offered in eleven institutions, and is funded with both grants and with General Fund.



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 2019-21 legislatively adopted budget of $86.9 million total funds is 6.5% higher than the 2017-19 legislatively approved budget. This budget includes $136,281 of statewide budget reductions to State Government Service and Attorney General charges, PERS rate adjustments, and other assessments.

Central Administration and Administrative Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	133,117,378	162,022,667	165,994,552	179,900,232
Other Funds	2,510,872	10,708,462	10,216,550	11,833,051
Other Funds (NL)	81,739	--	--	--
Federal Funds	704,127	999,473	1,039,222	1,039,222
Total Funds	**136,414,116**	**173,730,602**	**177,250,324**	**192,772,505**
Positions	346	418	415	428
FTE	343.84	415.92	413.25	426.25

Program Description
This section includes two organizational units within the Department of Corrections:
- Central Administration, which 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, which includes agency wide support programs 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; miscellaneous sales, rentals, and surplus equipment; and debt financed cost of bond issuance. Federal Funds revenue is from a grant related to the Prison Rape Elimination Act and from the Federal Communications Commission through the Oregon Community Health Information Network (OCHIN) Broadband Subsidy program.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $192.8 million total funds is an 11% increase from the 2017-19 legislatively approved budget. This budget includes significant investments in the tools used by DOC employees and to the buildings in which DOC employees work and which house the adults in DOC's custody. Investments include:
- $434,771 General Fund and two positions (2.00 FTE) to create a central Records office and Records Officer for the Department.
- $206,617 Other Funds expenditure limitation and one position (1.00 FTE) to manage the revenue-generating activities of prison programs, cottage industries, and clubs financially managed within the Inmate Welfare Fund.
- $413,235 General Fund and two positions (2.00 FTE) to improve operational efficiencies and classification consistency in the Payroll Unit.
- $706,025 Other Funds expenditure limitation and three positions (3.00 FTE) to manage the communications (telephone and data) system used by adults in custody. Supporting revenues come from the Department's inmate telephone system vendor.

- $2.5 million General Fund to pay licensing and maintenance fees for the agency's use of its Statistical Analysis System software, and to replace desktop and laptop personal computers per the Department's five-year lifecycle replacement policy.
- $1.65 million to upgrade the Corrections Information System.
- $12.6 million General Fund and five positions (5.00 FTE) for capital improvements, deferred maintenance, and emergency repair projects throughout the prison system; $11.3 million is for emergency repair or deferred maintenance projects that are not eligible for bond financing. Specifically, those items include:
    - $500,000 for a facilities master plan.
    - $3.8 million for identified repairs to fire suppression systems throughout the prison system.
    - $5.3 million for HVAC repairs in nine prisons across the state.
    - $1.1 million for repairs to building exteriors and roofs.
    - $0.7 million for repairs to plumbing and electrical systems.
- $1.6 million General Fund for annual fire suppression system inspections and testing at all DOC prisons and at two administration facilities.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	124,139,216	114,024,238	116,080,590	117,154,410
Other Funds	2,176,900	98,234	--	51,378
Other Funds (NL)	27,086,246	--	--	--
Federal Funds (NL)	1,123,728	1,038,513	940,120	940,120
Total Funds	**154,526,090**	**115,160,985**	**117,020,710**	**118,145,908**

Program Description

Debt service is the obligation to repay the principal and interest on 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 consisted of Article XI-Q bonds.

Revenue Sources and Relationships

Other Funds are unused balances in various capital financing accounts that are 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 2019-21 legislatively adopted budget for debt service of $118.1 million total funds is 2.6% more than the 2017-19 legislatively approved budget. Newly authorized capital construction bonds will be issued throughout the 2019-21 biennium, with $1.9 million additional debt expenditures anticipated to be incurred in the 2019-21 biennium. Debt service is 6.3% of the Department's total 2019-21 General Fund budget.

Capital Improvements

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,718,093	1,697,754	2,931,801	2,931,801
Total Funds	**2,718,093**	**1,697,754**	**2,931,801**	**2,931,801**

Program Description

This budget unit captures maintenance and asset protection expenditures for the agency's 14 institutions and approximately 5.4 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 2019-21 legislatively adopted budget of $2.9 million General Fund is 72.7% higher than the 2017-19 legislatively approved budget. This increase is due to mid-biennium budget re-balancing undertaken by the Department to manage a budget shortfall during 2017-19. Compared to the 2017-19 legislatively adopted budget, the increase is 3.8%.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	14,220,432	38,547,534	--	47,110,068
Total Funds	**14,220,432**	**38,547,534**	**--**	**47,110,068**

Program Description

This budget unit provides new expenditure authority for acquisition or construction of structures that cost $1 million or more. The expenditure limitation for each construction 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 2018) estimated to cost more than $208 million.

Legislatively Adopted Budget

The Legislature approved $47.1 million in Other Funds capital construction expenditure limitation for Article XI-Q bond proceeds for the agency to continue addressing its deferred maintenance and capital construction requirements ($24.5 million), to upgrade and replace camera systems ($8.6 million), and to update its radio system infrastructure ($14 million). Bonds will be issued throughout the biennium, requiring new debt service of $2 million General Fund in the 2019-21 biennium.

CRIMINAL JUSTICE COMMISSION

Analyst: Neburka

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	54,221,723	65,021,569	67,538,012	79,843,528
Lottery Funds	--	--	--	555,000
Other Funds	695,077	2,661,890	4,052,440	14,962,708
Federal Funds	4,209,944	8,224,498	1,211,518	5,337,957
Total Funds	**59,126,744**	**75,907,957**	**72,801,970**	**100,699,193**
Positions	11	17	15	23
FTE	11.00	14.54	14.13	21.51

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. The agency's responsibilities have grown over the past two biennia: legislation in 2017 added the Statistical Transparency of Policing (STOP) program (HB 2355) and expanded the Justice Reinvestment Grant program by adding $7 million for downward departure prison diversion programs provided by counties. In 2019, legislation on bias crimes (SB 577) added responsibility for analyzing bias incident data to the CJC's portfolio, and SB 973 created a new behavioral health justice reinvestment grant program to be administered by the agency.

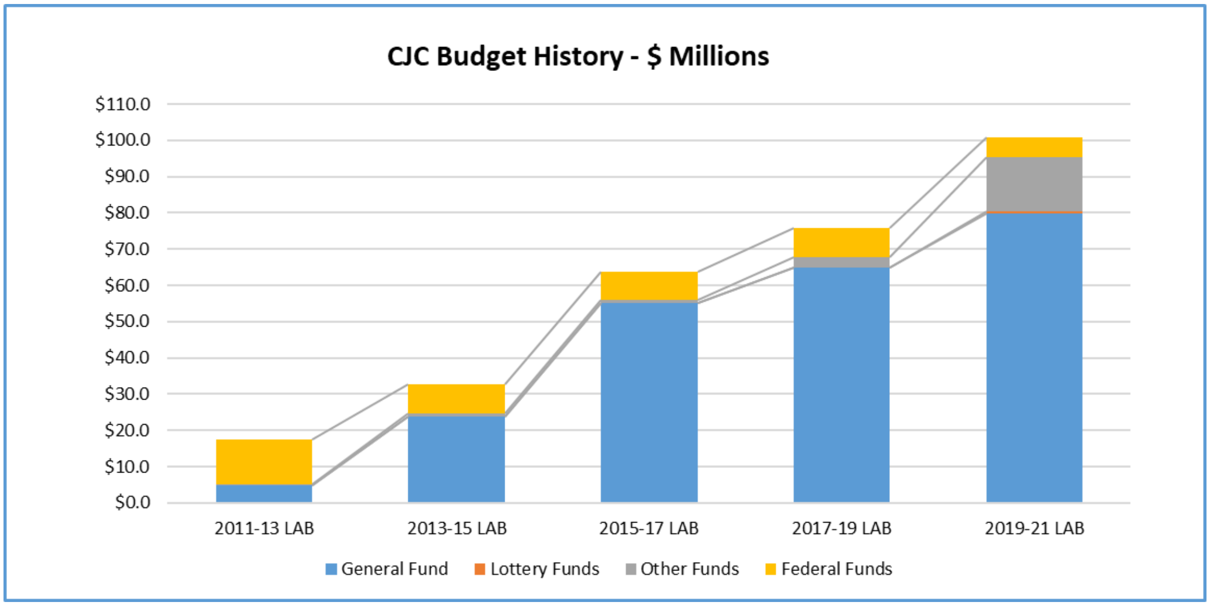
Revenue Sources and Relationships

General Fund is the 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) and with subsequent legislation. Other Funds revenue is derived from civil and criminal forfeiture proceeds and from grants. The Federal Funds in the budget are mostly provided by the Edward Byrne Memorial Justice Assistance Grant program.

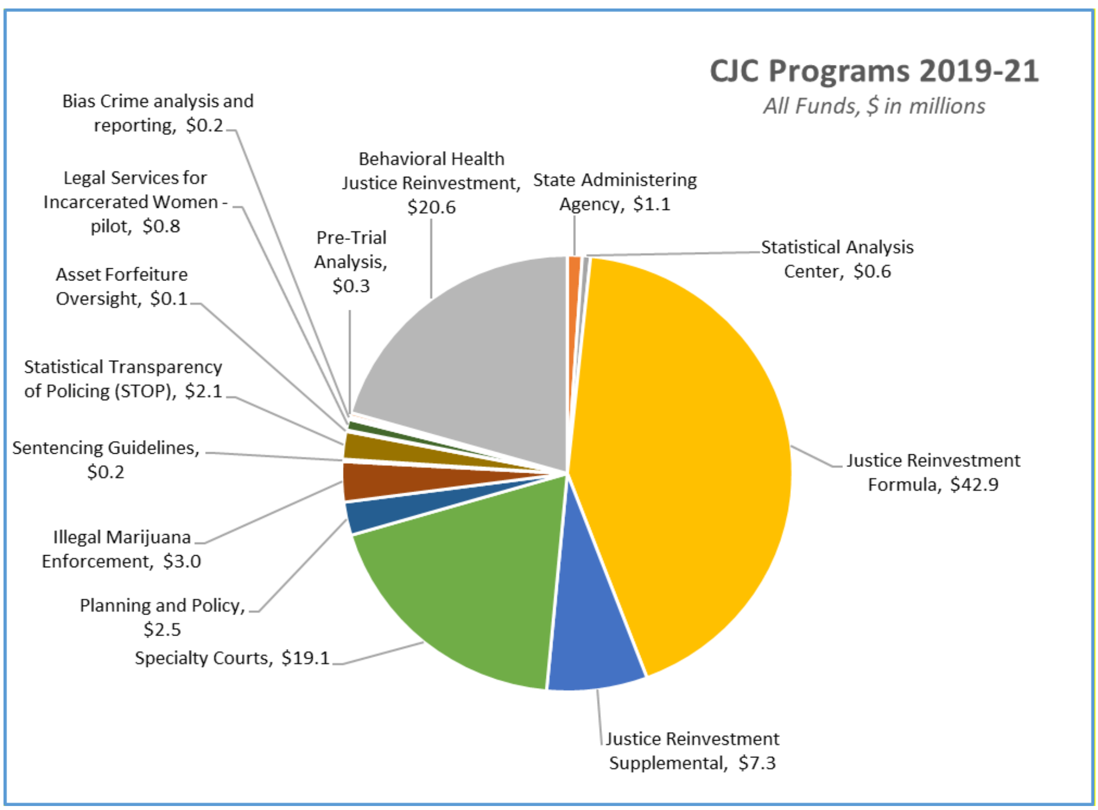
Budget Environment

The Commission's grant-making programs comprise 93% of its budget. The Justice Reinvestment Initiative (JRI) and the JRI supplemental grant program make up 50% of the budget and total $50.2 million for 2019-21. 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 modified public safety programs and sentences for crimes, and has demonstrably reduced the use of prison beds in the two years since its passage.

The following display illustrates the dramatic rise in the agency's total budget over a relatively short period of time, due for the most part to General Fund tied to the enactment of HB 3194 in 2013. The addition of Lottery Funds in the 2019-21 budget reflects a fund shift from General Fund to Measure 96 (veterans' services) Lottery Funds to support three veterans' courts in the Specialty Courts grant program.



The agency's Specialty Courts Grant Program totals $19.1 million for 2019-21 and accounts for 19% of the total budget. There are 68 specialty courts in Oregon; CJC's grant program currently funds 42 courts in 24 counties through the competitive Operational Grant. A second Implementation Grant will be offered in the fall of 2019 to support "new" or "start-up" specialty courts and those working towards meeting best practice standards. 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. The 2019-21 legislatively adopted budget shifts $555,000 from the General Fund to Measure 96 (veterans' services) Lottery Funds to support three veterans' courts at the current service level.



Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for the commission of $100.7 million total funds is a 32.6% increase from the 2017-19 legislatively approved budget. This budget reflects an increase of $14.8 million General Fund, an increase in Other Funds expenditure limitation of $12.3 million, and a reduction in Federal Funds of $2.9 million. It should be noted that the new Behavioral Health Justice Reinvestment program double-counts its total legislatively-adopted funding level by $10 million, to reflect the one-time $10 million General Fund investment that is capitalizing the *Improving People's Access to Community-based Treatment, Supports, and Services* account, established in SB 973. Expenditures from this new account will be recorded as Other Funds. Positions increased by 6 (6.97 FTE) to a total of 23 (21.51 FTE).

Specific changes from the 2017-19 legislatively approved budget include a General Fund increase of $12.3 million over the current service level, for the following programs and purposes:

- $10 million on a one-time basis to capitalize the new Improving People's Access to Community-based Treatment, Supports, and Services grant account created in SB 973, and $639,462 on an ongoing basis to establish three positions (2.38 FTE) and services and supplies to administer the grant program.
- $800,000 on a one-time basis to pilot a legal services program for women incarcerated at the Coffee Creek Correctional Institution in Wilsonville, required by HB 2631.
- $110,000 on a one-time basis to carry out an assessment of prison capacity utilization by counties required by HB 3064.
- $235,476 and one position (1.00 FTE) on an ongoing basis to analyze and report on bias crime incident data, required by SB 577.
- $880,226 ongoing and $159,159 on a one-time basis to continue implementation of the Statistical Transparency of Policing (STOP) program, created in HB 2355 (2017).
- A reduction of $555,000 from General Fund and an increase in Measure 96 (veterans' services) Lottery Funds in the same amount, to support three veterans' specialty courts at the current service level.

Other Funds expenditure limitation increased by $10.9 million over the 2017-19 legislatively approved budget, for the following programs and purposes:

- $10 million to provide expenditure limitation for grant-making and research and evaluation from the Improving People's Access to Community-based Treatment, Supports, and Services grant account.
- $275,086 on a one-time basis to spend grant funds on an evaluation of pre-trial detention in county jail facilities.
- $636,633 on a one-time basis to spend grant funds on the STOP program.

Federal Funds expenditure limitation of $4.1 million over the current service level assumes receipt of federal Edward Byrne Justice Assistance Grants awarded for 2017 and 2018.

Finally, the 2019-21 budget includes a $44,716 total funds reduction to reflect final statewide budget adjustments to Department of Administrative Services' assessments and charges for services, Attorney General hourly rates, PERS rates, and Secretary of State and Parks assessments.

DISTRICT ATTORNEYS AND THEIR DEPUTIES

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,995,440	13,328,561	12,945,651	12,839,916
Total Funds	**$11,995,440**	**$13,328,561**	**$12,945,651**	**$12,839,916**
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 with 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 paying their salaries. There is a two tier, annual compensation plan for DAs. Ten DAs in counties with populations exceeding 100,000 receive approximately $191,000 in annual state compensation; all others receive approximately $165,000. In addition, the state funds other payroll expenses and charges that primarily cover tort liability and other insurance. Apart from state funding, 26 counties have elected to provide supplemental compensation for their elected DA, ranging from an estimated $6,000 to $55,238 per year; the other counties provide no supplement.

DAs have offices ranging from only 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, with the exception of grand jury recordation, discussed below.

The state provides indirect supplemental support to the DAs though the Department of Justice (DOJ), which includes: prosecutorial support, investigations, information technology support, 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. By statute, DOJ provides funding for a DA liaison position for the Child Support Program. DAs in 22 counties have responsibility for approximately 38,000 (or 21.4%) of the 177,707 state child support cases. For the remaining 14 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).

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 unknown. 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. A budget note directs that the Oregon District Attorneys Association, the Association of Oregon Counties, and DOJ report to the Legislature in 2021 with updated information on how District Attorney Offices are funded.

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) relying 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) limiting the amount of time spent in preparation and prosecution of each case.

The Legislature in 2017 enacted SB 505, relating to recording of grand jury proceedings. The measure requires county district attorneys to electronically record all grand jury proceedings, and to store and maintain copies of the audio recording. The Judicial Department was provided funding to purchase and maintain the recording equipment for DAs. On March 1, 2018, the measure was implemented in three counties and the Emergency Board in December of 2018 provided $386,107 funding for what it determined to be eligible or direct costs of the measure. Multnomah County was the only early implementing county that employed limited use of preliminary hearings and the cost was well below what had been predicted when SB 505 was being considered by the Legislature. The Multnomah County DA then discontinued using preliminary hearings and moved to exclusive use of the grand jury recordation. The remaining 33 counties began implementation on July 1, 2019. The Legislature set aside a $3 million special purpose appropriation to the Emergency Board for implementation funding; however, a budget note directs that the Judicial Department, District Attorneys, and the Association of Oregon Counties report on how grand jury recordation can be delivered in the most efficient, consistent, and cost effective way. The Emergency Board recommended that any county funding request be considered on a reimbursement basis. There still remains some uncertainty about whether SB 505 will reduce the number of grand jury hearings if local DAs opt instead for pre-trial hearings.

The Legislature, beginning in 2017, and then again in 2019, provided supplemental funding for DOJ's Child Advocacy Section to provide full representation of DHS Child Welfare caseworkers in court, including Multnomah County. This may lessen or eliminate 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.

Beginning In 2013, the Legislature made a number of sentencing reforms to the criminal justice system to reduce the General Fund cost of incarceration. Some of 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. The most recent prison forecast(s) reflect a leveling off of the prison populations, as compared to pre-reform forecasts, and therefore suggest that sentencing reforms are working as intended; however, the impact varies by county.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the District Attorneys and Their Deputies is essentially a current service level budget. The total budget of $12.8 million General Fund is $488,645, or 3.7%, less than the 2017-19 legislatively approved budget. The decrease is primarily attributable to a reduction in the risk insurance assessment and the elimination of one-time funding for SB 505 and grand jury recordation in the three pilot counties.

DEPARTMENT OF JUSTICE

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	77,042,764	90,195,436	99,293,387	114,789,120
Other Funds	294,674,558	332,801,936	326,302,268	351,837,618
Other Funds (NL)	4,361,977	--	--	--
Federal Funds	154,388,574	201,118,887	138,497,693	186,995,478
Federal Funds (NL)	15,740,252	--	--	--
Total Funds	**$546,208,125**	**$624,116,259**	**$564,093,348**	**$653,622,216**
Positions	1,326	1,379	1,314	1,453
FTE	1,295.51	1,355.40	1,304.01	1,420.13

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.

DOJ is overseen by an attorney general, which is a statewide elected official whose authority is established in statute. The attorney general is chief legal officer of the state, with a term of office of four years.

Revenue Sources and Relationships

The Department of Justice is funded with General, Other, and Federal Funds. For the 2019-21 biennium, the General Fund accounts for 18% 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 54% 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. Although the agency has the statutory authority to determine the various hourly rates, the rate has historically been reviewed through the legislative budget process. The 2017-19 legal services rate (also known as the Attorney General rate) was $182 per hour and is budgeted to generate an estimated $174.8 million. The Attorney General rate for the 2019-21 Legislatively adopted budget is $214 and is estimated to generate $229.3 million, with a projected ending balance of $9.3 million. This represents approximately one month of operating capital for the Legal Services Fund. This is a $54.5 million, or 31.2 %, increase from the 2017-19 Legislatively Adopted Budget.

The increase in the legal services rate from $182 to $214 per hour, or by 17.6%, is explained primarily by the following factors: (a) current service level adjustments for: collective bargaining agreements, merit increases, inflation on services and supplies, and mandated caseload adjustments; (b) policy package adjustments; (c) an estimate for yet-to-be negotiated compensation plan adjustments; and (d) a one-month working capital reserve. The single largest increase to the hourly rate is the $10 attributable to the working capital reserve. The percentage increase in legal services rate without adding the working capital reserve would have been 12.1%.

This biennium DOJ will transfer $46 million Other Funds from surplus legal settlements to the General Fund.

Federal Funds make up 29% 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.

Budget Environment

DOJ is responsible for all court actions and legal proceedings in which the state of Oregon is a party or has an interest, including all civil and criminal cases before state and federal courts. DOJ exercises virtually complete authority over all legal business for approximately 100 state agencies, boards, and commissions. DOJ itself is the single largest consumer of the state's legal services. Successive attorney generals have adhered to a policy of a consolidated or centralized legal service delivery model over a de-centralized service delivery model. Statute provides an exemption for some entities from the requirement to use only DOJ provided legal services.

DOJ is responsible for a conglomeration of functions and activities, some of which may only be tangentially related to the legal system. The Child Support Division locates parents, establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Crime Victim and Survivor Services Division compensates victims of violent crime, advocates for crime victims, and administers state and federal grants that provide partial funding to nearly every non-profit and system-based victims program in the state. Some DOJ programs are critical to sustaining the state's receipt of Federal Funds, such as the investigation and prosecution of Medicaid and Social Security Administration's Title II and XVI fraud.

DOJ works with a broad spectrum of stakeholders from local public safety partners to private non-profits to the federal government. DOJ supports local district attorneys with prosecutorial assistance, investigations, information technology support, and administrative support. DOJ's Appellate and Trial Divisions may also defend the state in local district attorney cases in which sentenced offenders challenge their convictions or sentences.

The Civil Enforcement Division is generally the state's plaintiff's civil litigation arm seeking affirmative action or recovery of funds. The Division enforces consumer protection laws and protects the state's legal interest in money, real, or personal property. DOJ is currently engaged in some major lawsuits, including lawsuit with the timber counties. The Attorney General has also initiated or joined some lawsuits against the federal government.

DOJ serves as a source of information and training for the state's criminal legal community as well as general legal counsel training for state agency staff. Administrative and financial support and grant administration of the agency can be complex.

Legislatively Adopted Budget

The budget for the Department of Justice is $653.6 million total funds, including $114.8 million General Fund, $351.8 million Other Funds, and $187 million Federal Funds. The total funds budget is $29.5 million (or 4.7%) more than the 2017-19 legislatively approved budget. The budget includes 1,453 positions (1,420.13 FTE).

Continued funding is provided for: Victims of Crime Act grant funding ($30.3 million); backfill of a revenue reduction in the Division of Child Support ($17.8 million); the final phase of the Child Support Enforcement Automated System project ($17.1 million), plus a data center contract with a private vendor ($4.2 million); and homeland security and urban area security grants ($569,430). The agency's internal audit function was in-sourced with a new position. The Defense of Criminal Convictions was fully funded at forecasted caseload ($26.8 million).

Enhanced funding is provided for: juvenile dependency representation ($16.7 million); legal services to agencies ($6.1 million); intragency charges to fund administrative expenditures ($8.4 million); investments in information technology infrastructure ($5 million), including the re-initiation of the Legal Tools project ($595,610); debt service ($1.5 million); Financial Fraud/Consumer Protection ($435,525); and additional support for the Oregon Crime Victims Law Center ($700,000), among other lesser increases.

New funding was provided for: HB 2006 and housing for victims of domestic and sexual violence ($3 million); SB 577 and a Hate Crimes Coordinator and hotline service ($247,833); permanent support of the Child Support Enforcement Automated System ($2.9 million); and consumer privacy fraud protection ($486,637).

Reductions in the budget include: General Fund reduction to the Criminal Justice Division ($772,727); reduced allocations for the Criminal Fines Account ($2 million) and Master Tobacco Settlement Account ($1.6 million); and the elimination of vacant positions ($5.1 million). Reductions were also made to eliminate excess or unneeded Other Funds expenditure limitation in the Mortgage Mediation program ($2.8 million); enforcement of the Tobacco Master Settlement program ($300,000); and information technology operations and maintenance costs ($400,000). A shift from Other to General Fund eliminated $6.3 million in Other Funds and the double-budgeting of most expenditures in the Criminal Justice program. There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges and Attorney General rates.

Administration

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	220,869	--	710,680
Other Funds	31,943,473	35,744,585	35,123,312	39,494,976
Total Funds	**$31,943,473**	**$35,965,454**	**$35,123,312**	**$40,205,656**
Positions	111	113	111	120
FTE	108.43	109.68	108.92	117.96

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 agency.

Administrative Services mainly provides centralized operational support services for most of the Department and includes fiscal services, internal audit, information services, facility operations, and human resources. Beginning this biennium, it also includes an internally focused diversity and inclusivity position. Some programs, such as the Child Support Division, maintain mostly separate administrative service functions.

The program also includes the Special Counsel to the Attorney General, legislative coordination, the Civil Enforcement Unit, and a consumer protection and outreach coordinator. The Civil Rights Director assists the Attorney General's civil rights outreach efforts around the state, makes continuing legal education presentations to the legal community; directs production and distribution of new outreach and educational materials about DOJ; screens cases for action by DOJ and makes referrals to DOJ; and troubleshoots public complaints. This section leads the Bias Crime and Incidents Steering Committee and plans and oversees the implementation and management of the Bias Crime Hotline including victim services and reporting requirements.

Revenue Sources and Relationships

The primary revenue source for Administration is from a cost allocation plan that charges the other divisions and programs in the Department for services such as fiscal, internal audit, 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. General Fund supports the Civil Rights Unit.

For DOJ, an intra-agency charge is an overhead charge to an operating program to fund agency-wide administration. Operating programs reflect the charge as an expense from which the proceeds are then transferred to the Administration program as a revenue source. An intra-agency charge aligns with operating program funding. For DOJ, on an agency-wide basis, intra-agency charge originates as General Fund (11%), Other and General Fund as Other Funds (65%), or Federal Funds (24%); however, once expensed at the program-level, the Administration program expends the funds as Other Funds. While this method leads to the double-budgeting of an expense, first at the program level, and then at the administration level, the approach is preferable to what would otherwise be a less transparent method of revenue transfers. The agency-wide amount charged each program averages 12.7%. Due to the large amount of federal funding within the agency, the intra-agency charge must be certified on an annual basis as a federally-approved cost allocation plan.

Budget Environment

DOJ is a mid-sized agency with diverse program and funding requirements and complex administrative support needs. The agency has 22 locations with 469,904 total square feet of space. The agency processes approximately 14,000 legal service billings each year across approximately 100 client agencies. The agency's legal documentation system is used by approximately 300 attorneys. The information technology backbone of the agency consists of 27 complex systems, 436 virtual servers, and 45 physical servers. After an attempt to use contract services to perform internal audits, the Legislature decided to add back an internal auditor position to the agency. After an initial failed attempt at a commercial-off-the-shelf product, the Legislature re-authorized the Legal Tools Replacement (LTR) information technology project, which is a project to replace DOJ's current legal matter management "system," which is a compilation of loosely coupled and dated applications, including: matter management (e.g., cases, events, parties to the case, etc.); document management (e.g., files and storage, etc.); time capture; client billing; and various custom linkages to office applications and system security.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $40.2 million is $4.2 million (or 11.8%) more than the 2017-19 legislatively approved budget and includes 120 positions (117.96 FTE). The budget includes the following:

- $3.9 million Other Funds for Department-wide information technology costs.
- $744,939 General Fund for the transfer of the Civil Rights Unit from Civil Enforcement to the Administration Division.
- $595,610 Other Funds for the reauthorization of the Legal Tools Replacement information technology project.
- $460,563 Other Funds to reclassify nine positions and transfer three positions from Civil Enforcement to the Administration Division.
- $400,000 Other Funds reduction in contract savings from the original attempt at the Legal Tools Replacement information technology project that was terminated.
- $277,608 Other Funds for one permanent full-time diversity, inclusion, equity, equal opportunity, civil rights, and affirmative action coordinator (0.88 FTE).
- $205,792 Other Funds for one permanent full-time internal auditor (0.75 FTE).
- $200,000 Other Funds reduction in contract audit service.

Appellate Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	247,097	291,749	350,507	336,351
Other Funds	18,554,703	21,282,241	22,677,219	23,692,441
Total Funds	**$18,801,800**	**$21,573,990**	**$23,027,726**	**$24,028,792**
Positions	57	57	57	57
FTE	56.37	56.37	56.50	56.50

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 order. The Division may also file mandamus and amicus briefs. Attorneys in this Division also prepare and defend ballot measure titles. 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.

The Division, which is led by the Solicitor General, is organized into the following sections:

- Defense of Criminal Convictions/Direct Appeals - the offender's challenge is on alleged legal or factual errors of the trial. The program also handles state's appeal cases in which the state appeals the dismissal of a criminal charge or the exclusion of evidence critical to the prosecution of a case.
- Defensive of Criminal Convictions/Post Conviction and Federal Habeas - the offender challenges the effectiveness of counsel or, for federal *habeas corpus,* the offender challenges violations of constitutional rights in the federal courts.
- Civil and Administrative Appeals - tax, contracts, torts, civil commitments, juvenile dependency, challenges to statute, professional and other licenses, regulatory decisions that impose fines or other penalties, benefit decisions, and administrative rule challenges.

<u>Revenue Sources and Relationships</u>
Approximately 70% of the billable hours for this Division are charged (indirectly) to the General Fund appropriation for the Defense of Criminal Convictions (see later section); however, such funds are expended as Other Funds. Revenues for civil or administrative appeals are Other Funds generated from the hourly fees billed to state agencies. A General Fund appropriation funds preparing and defending ballot measure titles.

<u>Budget Environment</u>
Since the Department is usually responding to appeals filed by others, it has little control over its workload other than to prioritize criminal over civil cases, when possible. The Division handles roughly 3,000 cases (approximately 1,800 civil and 1,200 criminal) per biennium for the Oregon Court of Appeals and the U.S. Court of Appeals for the Ninth Circuit. The Appellate Division is involved in about 80% of the Oregon Court of Appeals cases and about half of all Oregon Supreme Court cases. For defending criminal convictions, the goal is to brief cases within 210 days, which the Division has achieved in 83% of cases. Civil and administrative cases are briefed on a 49 day schedule. The Division reviews approximately 35 ballot titles per year.

The division has been reporting significantly higher expenditures for post-conviction relief (PCR) and federal habeas due to increasing PCR claims, increased used of expert witnesses, increased amount of resources expended by PCR petitioners, increased length of Trial Memoranda, and the Court of Appeals redefining of "prejudice" and whether counsel acted reasonably. Concurrently, the cost for capital cases has been declining due to a Governor's Office moratorium on carrying out death sentences after all appeals have been exhausted. SB 1013 (2019) was intended to limit prospectively the use of capital punishment to a narrow set of circumstances (e.g., terrorist acts and the murder of children or a law enforcement officer); however, DOJ determined after the passage of the measure that the bill also applies retroactively to pending cases and now most such cases may not be prosecuted as capital aggravated murder cases, the only capital crime in Oregon.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget of $24 million is $2.5 million (or 11.4%) more than the 2017-19 legislatively approved budget and includes 57 positions (56.50 FTE). The budget includes the following:

- $1 million Other Funds to reconcile intra-agency charges for central agency administrative expenses.
- $161,013 Other Funds for information technology costs.

Civil Enforcement Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,919,674	400,638	744,939	--
Other Funds	79,871,496	86,164,129	94,600,527	112,510,576
Other Funds (NL)	617,978	--	--	--
Federal Funds	3,602,390	4,605,713	5,068,123	4,971,466
Total Funds	**$87,011,538**	**$91,170,480**	**$100,413,589**	**$117,482,042**
Positions	206	247	247	305
FTE	203.04	240.86	245.29	297.02

Program Description

The Civil Enforcement Division is generally the state's plaintiff's civil litigation arm seeking affirmative action or recovery of money. The Division enforces consumer protection laws; protects the state's legal interest in money, real, or personal property; investigates and prosecutes Medicaid fraud; provides legal representation and advice to the Division of Child Support in relation to child support matters; provides legal representation in juvenile dependency cases; and regulates and provides oversight of charities.

The Division is organized into the following sections/activities:

- Child Advocacy (Juvenile Dependency) – This section provides legal advice and litigation representation to the Department of Human Services (DHS) - Child Welfare programs in juvenile dependency and termination of parental rights cases.
- Civil Recovery (Civil Litigation) - 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 represents the Division of Child Support in judicial proceedings to establish paternity and enforce child support orders.
- Civil Recovery (Tobacco Enforcement) – Enforces state tobacco laws relating to the Master Settlement Agreement and litigates payment disputes.
- Financial Fraud/Consumer Protection Section - Educates consumers to better protect themselves against marketplace fraud and abuse and prosecutes violations of antitrust laws, False Claims seeking restitution, consumer data privacy and data security cases, and securities litigation. For a successful antitrust action, a court may award restitution to consumers, civil penalties up to $25,000 per violation, injunctive relief, and attorneys' fees.
- Environmental Crimes/Cultural Resources – Prosecutes environmental crimes and works with District Attorney Offices on assistance on state and federal environmental law enforcement.
- 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).
- Charitable Activities Section – 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.
- Foreclosure Avoidance (Mediation) program - Requires lenders seeking to conduct a non-judicial foreclosure to participate in mediation with the homeowner.

Revenue Sources and Relationships

The Division is partially self-funded from recovered moneys deposited into the Protection and Education Revolving Account and paid by companies and organizations that sign assurances of voluntary compliance for

violations of consumer protection laws. The Division also bills client agencies and programs, primarily the Department of Human Services and the Department of Justice - Division of Child Support. Revenue to support the enforcement of the Tobacco Master Settlement Agreement comes from a Department of Administrative Services allocation of TMSA settlement funds. Fees charged to charitable and non-profit organizations for registration, filing financial reports, and gaming activities are used to fund the Charitable Activities section.
For the 2019-21 biennium, DOJ will transfer $46 million of surplus Protection and Education Account funds from major legal settlements to the General Fund. This is the single largest reappropriation in the agency's history.

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.

Budget Environment

The Legislature, beginning in 2017, and then again in 2019, provided supplemental funding for DOJ's Child Advocacy Section to provide full representation of DHS Child Welfare caseworkers in court, including Multnomah County. This may lessen or eliminate 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. The Legislature also provided continued and enhanced funding for the Child Advocacy Section to fully represent DHS Child Welfare caseworkers in court.

The Financial Fraud/Consumer Protection section anticipates a continued flow of consumer complaints. The consumer hotline received approximately 75,000 complaints with an additional 15,634 written complaints being filed either in person or online over a two-year period. Restitution to consumers between July 2011 and June 2013 totaled approximately $5 million. The Civil Recovery Section typically averages monetary recoveries totaling $25 million a biennium; this figure excludes large punitive damage awards collected infrequently.

Enforcement of the Master Tobacco Settlement Agreement (MSA) and, in particular, the Non-Participating Manufacturers or those companies that are not part of the MSA, is necessary to protect the approximate $150 million revenue stream received from the MSA each biennium. Historically, disputed state payments have been withheld from the annual MSA payments. In the Spring of 2017, Oregon joined over 20 settling states who had previously reached a resolution with the participating manufacturers on the disputed portion of the settlement for years 2004 through 2015. Payments have been made to the states for these years. DOJ no longer requires General Fund for defending the state's enforcement actions to the arbitration panel.

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 number of registered charitable organizations has increased from about 3,000 in the early 1990s to currently over 21,000. The Charitable Activities 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.

The Foreclosure Mediation program received approximately 43,000 requests for resolution conferences between August 2013 and June 2018. Of these requests, 3,831 reached an agreement between the homeowner and lender and 4,958 failed to reach an agreement. The program, begun after the 2007/08 financial crisis, is experiencing reduced demand for mediation services.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $117.5 million is $26.3 million (or 28.9%) more than the 2017-19 legislatively approved budget and includes 305 positions (297.02 FTE). The budget includes the following:

- $2.5 million Other Funds to reconcile intra-agency charges for central agency administrative expenses.
- $114,034 Other Funds for information technology costs.
- $6.8 million Other Funds to establish 20 new permanent full-time positions and reclassify 15 existing positions for the 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.
- $9.9 million Other Funds for the establishment of 34 permanent full-time positions for the Child Advocacy Section's Juvenile Dependency work in Multnomah County.
- $2.2 million Other Funds and eight permanent full-time positions and one permanent part-time position for the Civil Recovery Section's child support work.
- $2.4 million Other Funds reduction eliminates excess or unneeded Other Funds expenditure limitation in the Mortgage Mediation program.
- $744,939 General Fund reduction related to the transfer of the Civil Rights Unit from the Civil Enforcement to the Administration Division.
- $374,760 Other Funds reduction and $12,384 Federal Funds to reclassify five positions and transfer three positions from the Civil Enforcement to the Administration Division.
- $486,637 Other Funds for two permanent full-time staff in the Financial Fraud/Consumer Protection Section to pursue consumer data privacy and data security Unlawful Trade Practices Act cases.
- $300,000 Other Funds reduction to eliminate excess or unneeded expenditure limitation in the Tobacco Master Settlement program.

Criminal Justice Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,680,876	13,528,984	15,454,538	14,865,623
Other Funds	12,506,285	14,336,673	14,544,259	9,559,169
Federal Funds	1,069,807	1,317,621	1,397,754	1,418,373
Total Funds	**$25,256,968**	**$29,183,278**	**$31,396,551**	**$25,843,165**
Positions	60	60	57	59
FTE	56.22	59.63	57.00	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. DOJ staff may step in and act as the county District Attorney in the event of a vacancy.

The Division is organized into the following sections/units:

- Special Investigations and Prosecutions Section (District Attorney Assistance) - Assists the 36 District Attorney offices in criminal cases and matters related to prosecution and law enforcement by providing investigative assistance, technical legal and prosecutorial advice and services, legal education and training in criminal law and procedures. This section has dedicated resource prosecutors for Driving Under the Influence of Intoxicants, domestic violence, and elder abuse.
- Oregon Internet Crimes Against Children Unit (ICAC) - Investigates online sexual exploitation of children.
- Cooperative Disabilities Investigation Unit (CDIU) - For the prevention of fraud and abuse in the Social Security Administration's Title II and XVI programs and other insurance and benefit payments. The Unit's primary

responsibility is to develop credible and independent evidence for the timely resolution and determination of disability eligibility.

- Organized Crime Section - Investigates and prosecutes organized criminal activities, including racketeering, complex financial and investment schemes, public corruption or malfeasance by public officials, election law violations, and serves as counsel to Oregon State Police forfeiture program.
- Criminal Information Services Section - Facilitates the gathering, analysis, and sharing of criminal information with local, state, and national law enforcement agencies.
- Titan Fusion Center - Provides intelligence services to law enforcement to combat terrorism in Oregon, including bulletins, risk, threat, vulnerability assessments, and analytical support.
- High Intensity Drug Trafficking Areas (HIDTA) - Watch Center - Primary mission is to enhance officer safety through deconfliction (process to ensure that multiple agencies do not inadvertently target the same event, individual, or organization at the same time) for designated HIDTA counties, as well as providing tactical analytical support to law enforcement officers throughout the state.
- High Intensity Drug Trafficking Areas - Investigative Service Center - Promotes, facilitates, and coordinates the exchange of criminal intelligence information and provides analytical case support and strategic analysis.
- Regional Automated Information Network (RAIN) - Charged with facilitating law enforcement data-sharing by connecting separate, locally administered criminal justice records management systems by allowing user access to query various systems. RAIN is a non-profit organization of state and local law enforcement agencies which voluntarily participates in a cooperative to purchase access to “Coplink.” Coplink was developed and housed at DOJ. It was designed as a clearinghouse to share criminal case data across jurisdictions. RAIN connects locally administered criminal justice records management systems to a single network accessible to participating RAIN members.
- Oregon State Intelligence Network (OSIN) - The primary intelligence sharing network for Oregon law enforcement.
- Western States Information Network (WSIN) - Shares intelligence information among five western states.
- State Homeland Security Grant - Provides for continued work on the Oregon state critical infrastructure plan
- Urban Area Security Initiative (UASI) - Provides risk and threat assessments to prevent terrorist events in the Portland urban area, which includes Multnomah, Clackamas, Washington, Columbia, and Clark counties. In addition, the grant provides for tactical and strategic analytical case support, conducts Criminal Infrastructure and Key resources assessments, conducts seminars, and all crime briefings to the Regional Disaster Preparedness Organization, as well as on-site analytical support during major events.

<u>Revenue Sources and Relationships</u>

General Fund resources support organized crime, District Attorney assistance, the Fusion Center, and portions of the ICAC and RAIN programs. Other Funds from the Department of Human Services provide for the Cooperative Disability Investigations Unit.

The fiduciary responsibilities of the HIDTA 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). This shifted ISC funds from Federal to Other Funds. The Other Funds revenue source is from DPSST. Federal as Other Funds grants from the Military Department, Office of Emergency Management provide funding for State Homeland Security Grant and the UASI. For any expense without a revenue source, the Legal Services Fund is charged.

Federal funding includes federal asset forfeiture and federal grants to support the ICAC program.

<u>Budget Environment</u>

From July 2016 to June 2018, the Division prosecuted 263 cases, conducted 317 investigations, and provided 1,252 service assists by prosecuting attorneys.

During the past year, the workload for the ICAC 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 7,748 cybertips and investigated 2,070 cases resulting in 353 arrests since the inception of the program in 2004.

The Criminal Intelligence Unit and the 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 186 reports of suspicious activity, created 349 intelligence profiles, issued 835 intelligence publications, and conducted 40 threat and risk assessments.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $25.8 million is $3.3 million (or 11.4%) less than the 2017-19 legislatively approved budget and includes 59 positions (59.00 FTE). The budget includes the following:

- $947,443 Other Funds to reconcile intra-agency charges for central agency administrative expenses.
- $205,599 Other Funds for information technology costs.
- $289,603 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 the position comes from the Military Department, Office of Emergency Management.
- $279,827 Other Funds for the UASI 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.
- $212,329 fund shift from Other Funds to General Fund to support the RAIN Coordinator.
- $6.3 million fund shift from Other Funds to General Fund to reflect a category shift and replace Legal Services Fund billings.
- $772,727 General Fund reduction.
- $46,336 Fund shift from Other Funds to General Fund to replace a portion of a position's HIDTA grant funds that were discontinued.

Crime Victims and Survivor Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	12,431,685	9,547,907	14,341,791	18,069,689
Other Funds	23,955,644	33,065,243	30,508,633	30,338,503
Federal Funds	31,363,914	54,465,620	19,919,233	50,265,924
Total Funds	**$67,751,263**	**$97,078,770**	**$64,769,657**	**$98,674,116**
Positions	37	38	38	42
FTE	34.63	36.19	36.56	40.08

Program Description

The Crime Victim Survivor Services Division (CVSSD) compensates victims of violent crime for losses they sustain as a result of criminal actions. The Division administers and monitors grants from eight major funds, providing partial funding to nearly every non-profit and system-based victims program in the state. The Division also provides direct advocacy programs, monitors bias crimes, and collects restitution and criminal fines and fees on behalf of victims and the state.

The CVSSD is organized into the following sections/activities:

- Victim Response - Victims' rights program, post-conviction advocacy program, domestic violence resource prosecutor, Human Trafficking Intervention Program, and beginning in 2019-21, a Hate Crimes Coordinator and a hate crime telephone hotline service to collect data concerning bias crimes and incidents.
- Victim Compensation - Crime Victims' Compensation –Assists victims who sustain injuries resulting from criminal activity, including medical and counseling services, loss of earnings or support, funeral costs, transportation, and rehabilitation.

- Sexual Assault Victims' Emergency Medical Response Fund – Assists 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.
- Revenue Collections - Restitution, court fees, and compensatory fines.
- Crime Victim Grant Management – Makes grants to local public and private agencies to serve victims of violent crimes.
- 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.
- Child Abuse Multidisciplinary Intervention – Grant program that provides state funds to 36 county teams and five regional service providers for a multidisciplinary approach to assessment, exams, interviews, investigations, training, 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.
- 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.
- Oregon Crime Victims Law Center - Pass-through funding for legal representation for victims of crime.

Revenue Sources and Relationships

General Fund supports the Criminal Injuries Compensation Account, Child Abuse Multidisciplinary Account, the Domestic and Sexual Violence Program, Address Confidentiality Program, and pays for a pass-through grant to the Oregon Crime Victims Law Center.

Other Fund support comes from an allocation from the Criminal Fines Account for: (1) Child Abuse Multidisciplinary Account; (2) Regional Assessment Centers; (3) Criminal Injuries Compensation Account; and (4) Child Medical Assessments. The division may also receive punitive damage awards and restitution payments.

Federal Grants - Victim of Crime Act; Violence Against Women; Sexual Assault Services; Children's Justice Act; and J.R. Justice. These federal grants are derived from penalty assessments levied against offenders in federal courts. The overall level of state and federal funding for domestic violence and sexual assault has increased significantly beginning in the 2013-15 biennium through the current biennium. For example, federal funding for VOCA has increased from $5.4 million in 2013-15 to $41.4 million in 2019-21 with a supplemental funding request of $16.5 expected later this biennium.

Budget Environment

VOCA funds are one part of Oregon's complex funding mix for providing services to victims of domestic violence and sexual assault, which includes General Fund, Criminal Fines Account, Other Funds (Department of Human Services marriage license fee), Federal Funds, and local funding. The overall level of state and federal funding for domestic violence and sexual assault has increased significantly beginning in 2013-15.

For the 2015-17 biennium, the program received an average of 452 compensation claims per month and processed an average of 461 payments per month. Compensation payments totaled $5.8 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 2,300 pieces of mail a month to approximately 2,279 participants.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $98.7 million is $1.6 million (or 1.6%) more than the 2017-19 legislatively approved budget and includes 42 positions (40.08 FTE). The budget includes the following:

- $30.3 million Federal Funds and three limited duration positions (2.63 FTE) for VOCA assistance grant funds for victims of domestic violence and sexual assault programs. The 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 will be 100% federally funded with no state match required. DOJ will need to request additional expenditure limitation.
- $3 million General Fund to support the Crime Victims' Services Division and services for victims of domestic and sexual violence.
- $163,128 Other Funds reduction to reconcile intra-agency charges for central agency administrative expenses.
- $54,874 Other Funds and $25,993 Federal Funds for information technology costs.
- $700,000 one-time General Fund to support the Oregon Crime Victims Law Center.
- $1.3 million Other Funds allocation reduction to the Child Abuse Multidisciplinary Intervention Account to account for an existing balance in the account, in lieu of a General Fund reduction, which will not adversely impact planned account activities.
- $685,156 Other Funds allocation reduction to the District Attorneys Victims Assistance Program to account for an existing balance in the program, in lieu of a General Fund reduction, which will not adversely impact planned program activities.
- $46,453 General Fund and $201,380 Federal Funds and one permanent full-time position (0.88 FTE) for a Hate Crimes Coordinator and hotline service.

General Counsel Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	51,351,008	57,053,182	59,244,441	66,389,487
Total Funds	**$51,351,008**	**$57,053,182**	**$59,244,441**	**$66,389,487**
Positions	143	151	146	161
FTE	139.91	148.96	145.76	158.19

Program Description
The General Counsel Division provides a broad range of legal services to state officials, agencies, boards, and commissions. State agencies generally are required to use the legal services of DOJ and may not contract with outside counsel or hire staff attorneys without DOJ approval. 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. At the enterprise, or state government level, the division provides agency legal trainings and publications, including holding a statewide law conference.

The Division is organized into the following sections:

- Business Transactions - Provides legal advice for agency business transactions and public contracting, including areas of construction, real property, intellectual property, information technology, and other complex business transactions, including: investments, health insurance, guaranty, and surety contracts. This section also assists with the informal resolution of procurement and contract disputes.
- Business Activities - Represents approximately 50 professional and occupational licensing and regulatory agencies, providing legal advice and representing them in regulatory and administrative enforcement proceedings.
- Government Services - Provides a wide range of general legal advice to state agencies.
- Tax and Finance - Legal advice pertaining to state revenue and finance (banking, investments, borrowing, loan negotiations, and other financial transactions), economic development, and employee benefits, including the

Oregon Public Employees Retirement System. Tax advice and litigation for all types of personal, corporate, excise, property, and other taxes. Represents the Department of Revenue in Oregon Tax Court, appellate courts, and federal courts as well as with the federal Internal Revenue Service. This section also represents the state's interest in administrative hearings.

- Natural Resources - Provides legal services and advice for environmental and natural resource agencies.
- Labor and Employment - Provides legal advice and services on labor and employment issues, state and federal employment law, and collective bargaining agreements. Provides services to state agencies and semi-independent agencies and some public corporations.
- Human Services and Education - Provides legal services and advice related to laws and regulations of state and federal health and welfare programs, including administrative litigation representation. This section is also responsible for marijuana programs.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from hourly billings to state agencies or for a few select voluntary agencies, a flat charge billing. One agency is on a retainer model.

Budget Environment

The General Counsel Division work is in large part driven by the demands of client agencies. The legal work performed by this division has become more complex. Areas where workload has increased include: marijuana taxation, water rights, Portland Harbor Cleanup Fund, Timber County Lawsuit, new state Corporate Activities Tax, and the Attorney General's litigation against the federal government.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $66.4 million is $9.3 million (or 16.4%) more than the 2017-19 legislatively approved budget and includes 161 positions (158.19 FTE). The budget includes the following:

- $2.6 million Other Funds to reconcile intra-agency charges for central agency administrative expenses.
- $357,305 Other Funds for information technology costs.
- $152,506 Other Funds for a Public Law Conference.
- $1.6 million Other Funds to move four limited duration positions to permanent full-time (4.00 FTE).
- $515,725 Other Funds for one permanent full-time position to resolve a double-filled position (1.00 FTE).
- $604,530 Other Funds for two permanent full-time positions to support the Oregon Business Development and the Oregon Housing and Community Services agencies.
- $604,530 Other Funds for two permanent full-time positions in the Business Activities Section to support Oregon OSHA as well as the increased complexity of Court of Appeals opinions.
- $302,267 Other Funds and one permanent full-time position (0.88 FTE) for the Natural Resources unit to support the Department of Agriculture, Water Resources Department, and the Department of Environmental Quality.
- $677,724 Other Funds for four permanent full-time Legal Secretaries and Paralegals (3.52 FTE).
- $529,089 Other Funds reduction to eliminate three long-term vacant positions (3.00 FTE).
- $464,086 Other Funds and three permanent full-time position (1.76 FTE) for the Corporate Activities Tax.
- $219,016 Other Funds and one permanent full-time position (0.75 FTE) for the new family and medical leave insurance program.

Trial Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	30,883,219	32,936,360	35,882,458	38,844,115
Total Funds	**$30,883,219**	**$32,936,360**	**$35,882,458**	**$38,844,115**
Positions	107	106	107	114
FTE	104.75	104.87	106.00	112.39

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. This includes defending state agencies and 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.

The Division is organized into the following sections:

- Civil Litigation (jury trials) - Tort litigation, employment disputes, commercial litigation, prisoner civil rights suits, condemnation, defending agency orders, professional certifications of police and public safety officers, and state Habeas Corpus cases. This section also defends district attorneys in civil lawsuits.
- Criminal and Collateral Remedies - Litigates cases filed by a convicted person seeking a new trial or a re-sentencing from a trial court. This section seeks to uphold the convictions won by a district attorney when the case reaches a post-conviction or federal habeas challenge. This section also handles cases before the Psychiatric Security Review Board (conditional release or discharged to the community).
- Special Litigation - Defending state statutes and policies against constitutional challenges, challenges to ballot measures, state challenges of federal actions, class action lawsuits, and lawsuits involving timber, water rights, or protected species.

Revenue Sources and Relationships

Most of the revenue to support this Division is from billings to state agency clients. The Department of Administrative Services - Risk Management Fund is billed for the legal costs incurred by the Trial Division defending agencies, state government officials, and employees against certain claims self-insured by the state. 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 2019-21 legislatively adopted budget of $38.8 million is $5.9 million (or 17.9%) more than the 2017-19 legislatively approved budget and includes 114 positions (112.39 FTE). The budget includes the following:

- $1 million Other Funds to reconcile intra-agency charges for central agency administrative expenses.
- $212,076 Other Funds for information technology costs.
- $900,872 Other Funds and three permanent full-time positions (2.64 FTE) and increase the full-time equivalent on an existing position (0.50 FTE) for Department of Transportation condemnation work.
- $769,870 Other Funds and two permanent full-time positions and reclassifies a part-time Paralegal to full-time (2.50 FTE) for the Defense of Criminal Convictions caseload forecast.
- $8,255 Other Funds reduction to reclassify four positions.
- $241,806 one permanent full-time position (0.75 FTE) and one permanent part-time position (0.25 FTE) for Water Resources Department legal services.

Defense of Criminal Convictions

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	20,036,141	22,023,865	26,239,674	26,842,243
Total Funds	**$20,036,141**	**$22,023,865**	**$26,239,674**	**$26,842,243**

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. Personnel and resources connected to this work are part of the Trial and Appellate Divisions which bill this unit for work on individual cases.

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.

DCC also handles cases where the state appeals the dismissal of a criminal charge or the exclusion of evidence critical to the prosecution of a case. DCC also handles Psychiatric Security Review Board cases whereby DOJ attorneys represent the state in administrative hearings in "guilty except for insanity" cases involving a Ballot Measure 11 crime.

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. Budgetary 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.

There are two possible outcomes in a direct appeal of a criminal conviction: (1) The court will affirm the judgement of conviction or (2) The court will reserve the judgement of conviction and will either order a new trial, a new sentencing hearing, or other relief, as the court deems necessary.

There are two possible outcomes in post-conviction relief/federal habeas case: (1) The court denies petition for relief thereby upholding the conviction and sentence or (2) The court grants petition and will either order a new trial, modify the sentence, or other relief, as the court deems necessary.

The division has been reporting significantly higher expenditures for post-conviction relief (PCR) and federal habeas due to increasing PCR claims, increased used of expert witnesses, increased amount of resources expended by PCR petitioners, increased length of Trial Memoranda, and the Court of Appeals redefining of "prejudice" and whether counsel acted reasonably. Concurrently, the cost for capital cases has been declining due to a Governor's Office moratorium on carrying out death sentences after all appeals have been exhausted. SB 1013 (2019) was intended to limit prospectively the use of capital punishment to a narrow set of circumstances (e.g., terrorist acts and the murder of children or law enforcement officer); however, DOJ determined after the passage of the measure that the bill also applies retroactively to pending cases and now most such cases may not be prosecuted as capital aggravated murder cases, the only capital crime in Oregon.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $26.8 million is $4.8 million (or 21.9%) more than the 2017-19 legislatively approved budget. The budget includes the following:

- $658,581 General Fund for mandated caseload increase.
- $1.7 million General Fund for re-forecasted caseload increases in post-conviction relief challenges; however, some of the increase is being offset by a reduction in the cost of capital cases.

Division of Child Support

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	24,944,804	30,529,137	27,996,556	36,177,018
Other Funds	25,791,980	31,073,045	33,721,419	27,327,128
Other Funds (NL)	3,743,999	--	--	--
Federal Funds	79,887,320	103,748,357	112,112,583	119,032,466
Federal Funds (NL)	15,740,252	--	--	--
Total Funds	**$150,108,355**	**$165,350,539**	**$173,830,558**	**$182,536,612**
Positions	573	575	551	568
FTE	569.69	571.61	547.98	557.45

Program Description

The Division of Child Support (DCS) and Oregon Child Support Program (defined as the Division of Child Support plus local district attorney offices that contract with the DCS to provide services) locate parents and assets, establish paternity, enforce and modify child support obligations, and receive and distribute 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, 22 county district attorney offices contract with DOJ to provide child support services as part of the state-administered Oregon Child Support Program, down from 26 counties in 2014. Benton, Curry, Douglas, Gilliam, Hood River, Jefferson, Josephine, Klamath, Lake, Curry, Linn, Sherman, Deschutes, Jefferson, Wasco, and Wheeler County District Attorneys have chosen to provide their own child support services rather than contract with DCS.

The division is organized into the following sections: field operations, policy staff, and program services. The division is responsible to: locate parents and assets/collect financial information; establish paternity/parentage; establish child and medical support orders; enforce orders and collect payments; modify and adjust child support orders; manage accounting and recordkeeping; receive and distribute collections; and take enforcement action. Enforcement and collection tools include: income withholdings, new hire reporting, benefit payments withholding, interception of federal disbursements, state and federal tax refunds, lottery winnings, compliance agreements, bank data matches and garnishments, license restrictions (occupational, recreational, driver, etc.), liens on property and money awards, and federally mandated passport restrictions.

Revenue Sources and Relationships

General Fund resources provide the matching funds. 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. 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.

There was a federally mandated annual fee increase of $10 for each child support case where the family has not received TANF benefits. The fee, increased from $25 to $35, applies after $550 is collected and distributed to the family each federal fiscal year. The revenue collected by the division is passed through to the federal government as program income at 66%. The 34% balance is split between the County Child Support offices (24 percent) and the Division (10 percent). DCS does not get an administrative allowance for processing this collected fee. The division requires no additional Other Funds expenditure limitation for the fee increase.

Budget Environment

The Oregon Child Support 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 2019-21 legislatively adopted budget of $182.5 million is $17.2 million (or 10.4%) more than the 2017-19 legislatively approved budget and includes 568 positions (557.45 FTE). The budget includes the following:

- $995,689 Other Funds reduction and $1.4 million Federal Funds increase to reconcile intra-agency charges for central agency administrative expenses.

- $718,206 General Fund and $1.4 million Federal Funds for Civil Enforcement Division legal services in child support cases.
- $6.2 million General Fund and $11.6 million Federal Funds and the continuation of 92 existing position (91.44 FTE) due to a revenue shortfall in the TANF revenue stream. The Other Funds revenue is assignable to the state and collectible as Oregon Child Support Program revenue.
- $1.4 million General Fund and $2.8 million Federal Funds for a data center contract with a private vendor.
- $1 million General Fund and $1.9 million Federal Funds and 19 permanent full-time positions (11.47 FTE) for ongoing support of the Child Support Enforcement Automated System (CSEAS).
- $1 million General Fund reduction, $459,148 Other Funds reduction, and $2.8 million Federal Funds reduction due to the elimination of 24 long-term vacant positions (24.00 FTE).

Child Support Enforcement Automated System

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	1,343,260	--	2,137,146
Other Funds	19,802,147	20,772,648	--	3,681,223
Federal Funds	38,465,143	36,981,576	--	11,307,249
Total Funds	**$58,267,290**	**$59,097,484**	**--**	**$17,125,618**
Positions	32	32	--	27
FTE	22.47	27.23	--	21.54

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 (DCS) has been working, with federal oversight, on a multi-year, federally prescribed process to replace its antiquated 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 Oregon Child Support Program 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.

The CSEAS project is organized into the following sections: business and functional design, technology, organizational change management, policy analysis, and project management.

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 and some federal incentive funds, received as Other Funds, provide state matching funds. General Fund has been necessary to fund expenditures deemed ineligible to be financed with Article XI-Q bonds.

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 child support program essential functions. The current CSEAS System is 21 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. 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 2019-21 legislatively adopted budget of $17.1 million is $42 million (or 71%) less than the 2017-19 legislatively approved budget and includes 27 positions (21.54 FTE). The budget includes the following:

- $2.1 million General Fund, $3.7 million Other Funds, and $11.3 million Federal Funds and 27 limited duration positions (21.54 FTE) for the final phase of CSEAS project costs. Other Funds are financed with previously issued Article XI-Q bonds that were sold in the Spring of 2019.

Debt Service and Related Costs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,782,487	12,309,027	14,165,382	15,650,370
Other Funds	14,583	373,830	--	--
Total Funds	**$4,797,070**	**$12,682,857**	**14,165,382**	**15,650,370**

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; however, since there are no new sales no Other Funds is needed.

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 Division of Child Support.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $15.7 million is $3 million (or 23.4%) more than the 2017-19 legislatively approved budget. The General Fund budget is comprised of Debt Service payments for previously issued Article XI-Q bonds. The budget includes the following:

- $1.5 million General Fund to reconcile the funding needed for DOJ to meet all authorized contractual debt service payments.

MILITARY DEPARTMENT

Analyst: Neburka

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	25,478,056	27,578,231	28,098,484	33,533,168
Other Funds	123,541,931	126,246,339	111,705,471	134,078,273
Other Funds (NL)	60,623	--	--	--
Federal Funds	156,967,173	296,098,794	288,142,779	318,358,977
Total Funds	**306,047,783**	**449,923,364**	**427,946,734**	**485,970,418**
Positions	464	477	478	517
FTE	418.60	426.82	435.30	463.00

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:

- To provide combat-ready units and equipment in support of national defense.
- To 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. The federal government also is a major source of funds for new construction of facilities, and for Homeland Security. The state's primary responsibility is to provide facilities and facility maintenance for the Oregon National Guard.

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

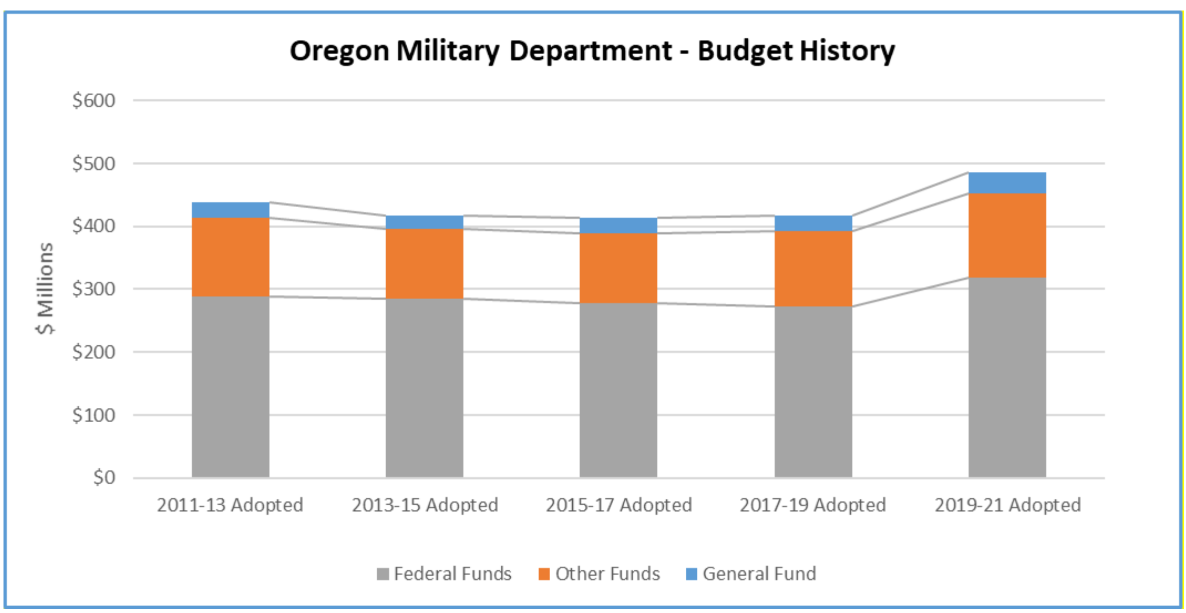
The Department's state budget receives nearly two-thirds of its funding ($318.4 million in 2019-21) from the federal government. These funds are used to finance each of the Department's four major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects.

Outside of the state budget, the Oregon National Guard and the Oregon Air National Guard receive direct federal support ($665.5 million in 2019-21) through the National Guard Bureau for funding federal employees (2,026 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 recovered through the agency's Indirect Cost Allocation Plan provide support for the Department's administrative costs. The Office of Emergency Management (OEM) receives Federal Funds for emergency management, disaster recovery, and homeland security.

Combined, federal and state expenditures for the National Guard in Oregon total more than $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.

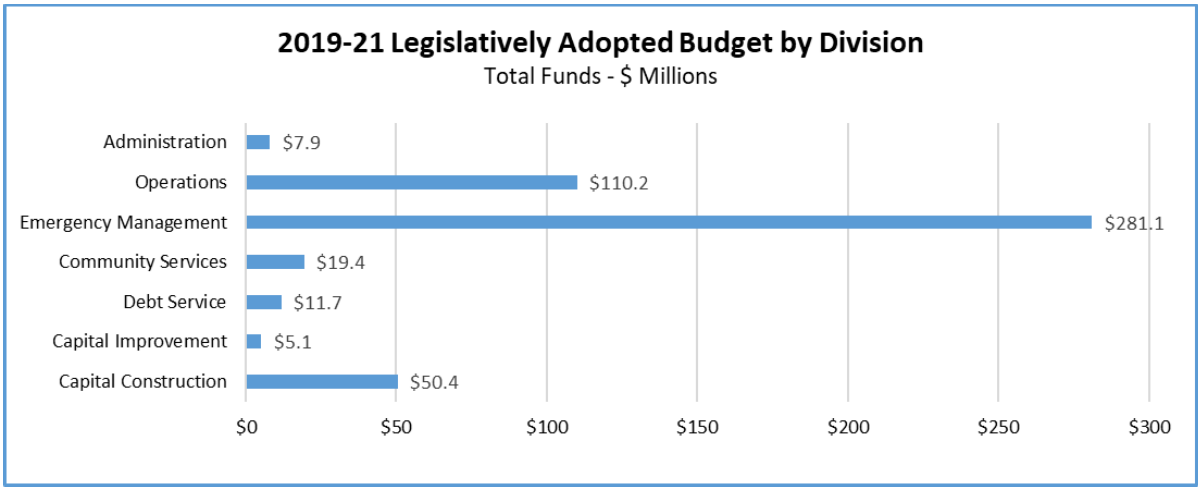
Other Funds revenue received by the Department totals $134 million. Approximately $92.2 million is related to 9-1-1 emergency telecommunications surcharge revenues. The Department also generates facility rental fees and miscellaneous sales revenue. Rental revenues earned from federally supported facilities 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 $3.1 million in 2019-21. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Other Funds revenue includes approximately $56,000 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 $2.7 million, as well as approximately $582,000 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 the Department's legislatively adopted budgets, by fund type, from 2011-13 through 2019-21.



Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $486 million is 8.1% more than the 2017-19 legislatively approved budget and includes 517 positions (463.00 FTE). The General Fund portion of the budget totals $33.5 million and is

21.6% more than the 2017-19 legislatively approved budget. Other Funds expenditure limitation is 6.2% more than the 2017-19 legislatively approved budget, and Federal Funds limitation is 7.5% higher. The following display shows the 2019-21 adopted budget by agency division.



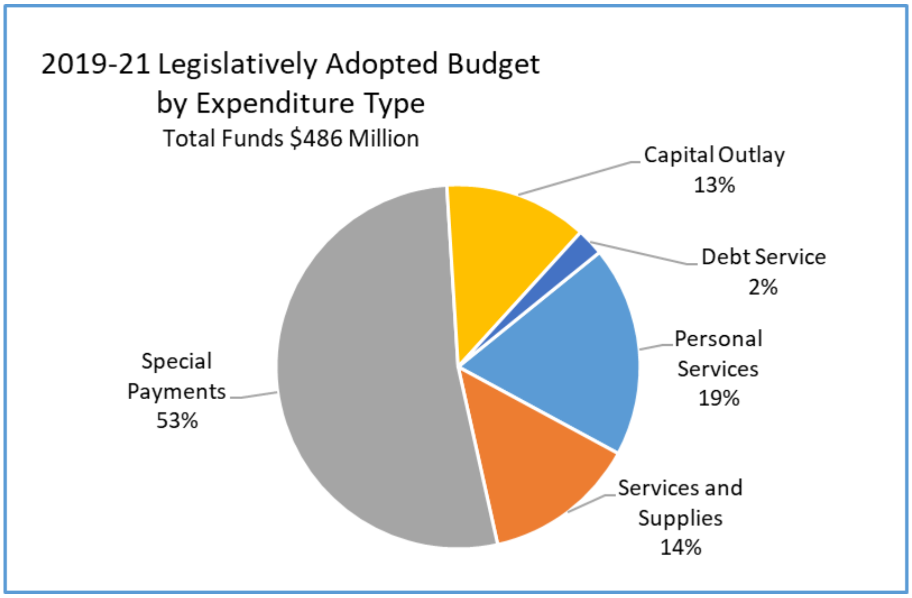
Significant changes to this budget include:

- $2,552,425 Federal Funds expenditure limitation and $193,354 Other Funds expenditure limitation to establish 24 positions (18.00 FTE) for wildland firefighting, facility maintenance, and National Guard support at various Military Department locations throughout the state.
- $495,000 General Fund and $707,960 Federal Funds expenditure limitation to address personnel costs, utility cost increases, and deferred maintenance at the Portland Air National Guard base and at Kingsley Field.
- $400,000 General Fund, $305,185 Other Funds expenditure limitation, and $1,683,492 Federal Funds expenditure limitation for the Oregon Youth Challenge Program expansion project.
- $2,970,000 General Fund on a one-time basis and $1,415,352 General Fund on an ongoing basis to address federal audit findings in the Office of Emergency Management.
- $288,000 Other Funds expenditure limitation for the Generator Connector grant program.
- $300,000 General Fund on a one-time basis to contract for a study of the Critical Energy Infrastructure Hub in Portland.
- $21,927,000 of Article XI-Q bond proceeds and six year capital construction expenditure limitation for renovation of and capital improvements to the Salem and Pendleton Army Aviation Facilities, for the Owen Summers Building and Anderson Readiness Center in Salem, for an armory service life extension project (ASLEP) at the Jackson Armory in Portland, and for the construction of exhibit space at the Oregon Military Museum at Camp Withycombe in Clackamas.
- $28,500,000 of Federal Funds and six-year capital construction expenditure limitation for the Salem Owen Summers Building and Anderson Readiness Center renovations, for construction of a tactical unmanned aerial vehicle facility in Boardman, for a wastewater treatment project at Camp Umatilla, and for an ASLEP at the Grants Pass Armory.
- A net agency-wide reduction of $2.1 million total funds for statewide adjustments to state government service charges, Attorney General rates, PERS rates, and other assessments.

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

The following display depicts the 2019-21 legislatively adopted budget by expenditure type.

The Department's budget is composed of $91 million personal services, $66.2 million services and supplies, $61.9 million capital outlay, $255.1 million special payments, and $11.7 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.



Administration

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,068,297	5,426,963	5,268,305	5,279,710
Other Funds	1,777,428	2,426,559	2,637,158	2,608,517
Total Funds	**5,845,725**	**7,853,522**	**7,905,463**	**7,888,227**
Positions	25	25	25	25
FTE	23.88	23.88	23.88	23.76

Program Description

The Administration program consists of the Command Group, Financial Administration, the State Personnel Office, and Public Affairs. The program supports just over 2,500 state and federal Oregon Military Department and Oregon National Guard employees, commands over 7,800 soldiers and air personnel, and provides oversight for $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 $56,000 in Oregon individual tax check-off deduction revenue associated with the Emergency Financial Assistance Program.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $7.9 million is 0.4% greater than the 2017-19 legislatively approved budget and includes 25 positions (23.76 FTE). Changes to the Administration budget include the addition of one internal auditor position ($186,263 General Fund and one position, 0.88 FTE), and the elimination of one executive support position (-$174,858 General Fund and one position, 1.00 FTE).

Operations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	9,416,881	7,162,718	7,575,438	8,032,319
Other Funds	3,289,040	4,520,012	4,818,812	5,330,159
Federal Funds	77,941,911	104,221,740	94,085,663	96,836,555
Total Funds	**90,647,832**	**115,904,470**	**106,479,913**	**110,199,033**
Positions	342	337	338	362
FTE	299.38	295.38	295.80	313.80

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 $3.1 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 541 buildings totaling 3.8 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 readiness centers/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 Camp Umatilla (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 just 5.3% of its facilities are in compliance with National Guard Bureau/Department of Army standards and are in the best condition, 81.6% do not fully meet standards, and the remaining 13.2% are substandard and/or in very poor condition. Facility compliance with federal standards has declined in recent biennia as resources have not been available for repairs, maintenance, and improvements. The overall decline of about 32% from previous ratings is due to infrastructure failures, new Army standards, and lead contamination in some armories from indoor firing ranges.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $110.2 million is 4.9% less than the 2017-19 legislatively approved budget and includes 362 positions (313.80 FTE).

The legislatively adopted budget includes the following changes:

- $2,552,425 Federal Funds expenditure limitation and $193,354 Other Funds expenditure limitation to establish 24 positions (18.00 FTE) for wildland firefighting, facility maintenance, and National Guard support at various Military Department locations throughout the state, including Camp Rilea, Camp Umatilla, Camp Withycombe, the Pendleton Army Aviation Support Facility, and in Salem.
- $495,000 General Fund and $707,960 Federal Funds expenditure limitation to address personnel costs, utility cost increases, and deferred maintenance at the Portland Air National Guard base and at Kingsley Field.
- A net reduction of $229,619 total funds for statewide adjustments to state government service charges, Attorney General rates, PERS rates, Secretary of State and Parks assessments, and the addition of $348,000 Other Funds expenditure limitation to pay the cost of issuance for $22,275,000 in Article XI-Q bonds authorized for capital projects (see Capital Construction section, below.)

Office of Emergency Management

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	2,013,808	3,793,517	3,409,158	8,012,024
Other Funds	89,219,995	96,680,471	100,338,256	99,963,167
Federal Funds	43,137,093	169,517,856	175,984,289	173,171,823
Total Funds	**134,370,896**	**269,991,844**	**279,731,703**	**281,147,014**
Positions	45	44	44	44
FTE	44.60	44.62	44.62	44.62

Program Description

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.

The Office of Emergency Management is responsible for managing over $180 million in federal grants in a given biennium. A 2013 federal audit found that OEM was charging overhead costs to its federal grants in the absence of a federally-approved indirect cost allocation plan. During the 2017-19 biennium, OEM developed, received federal approval for, and implemented an indirect cost allocation plan. Budget actions taken in the 2019-21 budget to resolve the audit findings include a one-time appropriation of $3 million General Fund to repay FEMA for questioned costs identified in the 2013 audit; and the fund shift of eleven positions from direct federal funding to the General Fund in order to properly recover overhead costs from federal grants.

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. HB 2449 (2019) increased the emergency communications tax to $1.00 per month on January 1, 2020 and to $1.25 per month (or transaction, as appropriate) on January 1, 2021. The bill also extended the sunset date from 2022 to 2030, and adjusted the administrative and collection cost caps imposed on the Office of Emergency Management and the Department of Revenue.

The Emergency Communications Account is distributed quarterly according to statute for program administration costs, for communications equipment funded from the Enhanced 911 subaccount, and for distribution to cities and counties. Local governments use the revenue to partially fund the expense of the 43 Public Safety Answering Points (PSAPs) throughout the state. Expenses reimbursed from the Enhanced 9-1-1 subaccount are primarily used 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 2019-21 legislatively adopted budget of $281.1 million is 4.1% higher than the 2017-19 legislatively approved budget and includes 44 positions (44.62 FTE). This budget includes the following changes:

- $1,415,352 and eleven positions shifted from Federal Funds to General Fund in order to comply with audit findings related to charging indirect costs to grants. An additional $1,283,178 in Federal Funds expenditure limitation was reduced to eliminate expenditures double-counted in the budget request.
- $2,970,000 General Fund on a one-time basis to repay the Federal Emergency Management Agency (FEMA) for questioned costs identified in a 2013 federal audit of two Department of Homeland Security grant programs.
- $288,000 Other Funds expenditure limitation for the Fuel Storage Facility Compatibility Grant program created by SB 1523 (2016). This program provides grants to commercial cardlock facilities for the purchase and installation of generator connectors, so that emergency response personnel are able to pump fuel from these facilities in an emergency.
- $300,000 General Fund on a one-time basis to commission a risk abatement study of the Critical Energy Infrastructure Hub in Portland. The study will evaluate the impacts of a catastrophic failure of fuel storage facilities located at the Critical Energy Infrastructure Hub following a Cascadia subduction zone earthquake.
- A net reduction of $859,511 total funds for statewide adjustments to state government service charges, Attorney General rates, PERS rates, and other state assessments.

Community Support

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	197,383	197,358	205,613	605,613
Other Funds	4,893,310	8,533,751	3,811,195	4,116,380
Federal Funds	9,333,865	11,287,637	12,939,133	14,717,233
Total Funds	**14,424,558**	**20,018,746**	**16,955,941**	**19,439,226**
Positions	52	71	71	86
FTE	50.74	62.94	71.00	80.82

Program Description

The Community Support program coordinates support for local education programs and emergencies that require assistance of the National Guard. The unit includes:

- The Oregon Youth Challenge Program (OYCP), operated by the Oregon National Guard through a federal/state agreement with the National Guard Bureau since 1994. 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. As currently configured, OYCP graduates approximately 250 students per year. An expansion underway will provide the infrastructure necessary to add an additional 84 cadets to each of the two classes offered each year.
- The *Science and Technology Academy Reinforcing Basic Aviation and Space Exploration* (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, at the Kingsley Field air base in Klamath Falls, and at Camp Rilea in Warrenton.
- 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 2020, and the additional male cadets in the class starting in July 2020.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $19.4 million is 2.8% less than the 2017-19 legislatively approved budget and includes 86 positions (80.82 FTE). The reduction is due to phasing out $5.4 million one-time Emergency Operations Other Funds expenditure limitation approved in February 2018 for the cost of National Guard troops and flight crews deployed to fight wildfires in 2017.

The legislatively adopted budget incorporates the following changes:

- An increase of $400,000 General Fund on a one-time basis, $305,185 Other Funds, $1,638,492 Federal Funds expenditure limitation, and 14 positions (8.82 FTE) for the Youth Challenge program, to accommodate additional cadets expected in January 2020 and in July 2020.
- An increase of $162,456 Federal Funds expenditure limitation and one position (1.00 FTE) to allow the STARBASE program to expand to Camp Rilea in Warrenton.
- A net decrease of $67,848 Federal Funds expenditure limitation for statewide adjustments to state government service charges, Attorney General rates, PERS rates, and other state assessments.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	9,531,687	9,997,675	11,639,970	11,603,502
Other Funds	128,537	550,790	100,050	133,050
Other Funds NL	60,623	--	--	--
Total Funds	**9,720,847**	**10,548,465**	**11,740,020**	**11,736,552**

Program Description

The Debt Service Program provides funding for principal and interest costs associated with the issuance of Article XI-Q bonds and previously issued certificates of participation (COPs) to finance capital improvements.

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 2019-21 legislatively adopted budget of $11.7 million is 11.3% more than the 2017-19 legislatively approved budget. General Fund for debt service is reduced by $36,468 as a result of both revised debt service estimates for existing debt and new debt service requirements on planned issuance of $22,275,000 of Article XI-Q bonds during the 2019-21 biennium.

Capital Improvements

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	250,000	1,000,000	--	--
Other Funds	194,377	--	--	--
Federal Funds	2,265,053	4,946,561	5,133,694	5,133,366
Total Funds	**2,709,430**	**5,946,561**	**5,133,694**	**5,133,366**

Program Description

This program provides funding 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 $150 million on 3.8 million square feet of facility space. Capital improvement expenditures are planned to delay facility replacements, wherever possible. 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 2019-21 legislatively adopted budget of $5.1 million is 13.6% less than the 2017-19 legislatively approved budget. The reduction reflects the phase out of $1 million General Fund that was provided, one-time only in 2017-19, for capital repairs to the military museum at Camp Withycombe in Clackamas.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	24,039,244	13,534,756	--	21,927,000
Federal Funds	24,289,251	6,125,000	--	28,500,000
Total Funds	**48,328,495**	**19,659,756**	**--**	**50,427,000**

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 49 major construction projects totaling over $330 million. 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 2050.

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 up to 90% 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.

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 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 2019-21 legislatively adopted budget of $50.4 million is more than double the 2017-19 legislatively approved budget. Article XI-Q bond financing for the following projects is included in the budget:

- $9,852,000 for enhancements to the Salem and Pendleton Army Aviation facilities to improve emergency response capabilities. The project includes seismic structural upgrades, backup power and water systems, and emergency equipment and fuel storage.
- $5,800,000 for additions to and alterations of the Owen Summers building and the Anderson Readiness Center in Salem.
- $4,275,000 for an armory service life extension project (ASLEP) at the Jackson Armory in Portland.
- $2,000,000 for the construction of exhibit spaces at the Oregon Military Museum at Camp Withycombe in Clackamas.

Federal Funds finance the following projects:

- Renovations at the Owen Summers and Anderson Readiness Center facilities in Salem, $6,200,000.
- Construction of a Tactical Unmanned Aerial Vehicle military training facility in Boardman, $12,000,000.
- Construction of a water supply line and wastewater treatment facility at Camp Umatilla in Hermiston, $6,000,000.
- An armory service life extension project in Grants Pass, $4,300,000.

BOARD OF PAROLE AND POST-PRISON SUPERVISION

Analyst: Walker

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	6,728,521	9,048,876	8,781,722	8,680,101
Other Funds	523	11,254	11,682	11,682
Total Funds	**$6,729,044**	**$9,060,130**	**$8,793,404**	**$8,668,419**
Positions	28	28	25	25
FTE	26.04	28.00	25.00	25.00

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

The Legislature has made a series of changes to the system of monitoring sex offenders over the past four biennia that have affected the agency's budget.

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) directed BPPPS to adopt a sex offender risk assessment methodology and classify sex offenders into risk levels. This bill was in response to the requirements established by HB 2549 (2013) and provided funding for the "Static 99R" assessments. The bill also required the Board to have five members and authorized 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 provided $420,000 for a potential location move for all or part of the agency to accommodate the additional staffing. In addition, the bill appropriated $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 extended the deadline for classifying registrants to December 1, 2018.

SB 767 (2017) extended the deadline for completion of Static 99R reviews four years to 2023 and made certain provisions applicable to offenders reporting to the system prior to January 1, 2014, clarified that offenders reporting before January 1, 2014 can petition for reclassification to a lower level, and allowed 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.

SB 2045 (2019) extends the current deadline for completing risk assessment of sex offenders (Static 99R) from December 1, 2022 to December 1, 2026.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Board of $8.8 million total funds is a 4.3% decrease from the 2017-19 legislatively approved level. The budget does not fund three limited duration positions funded in the 2017-19 legislatively adopted budget, but the Board has the flexibility to establish these positions administratively. The Board has approximately 24,000 outstanding Static99R's to complete. Without additional resources it is doubtful the Board will be able to meet the deadline established by HB 2045 (2019) even with the extension.

DEPARTMENT OF STATE POLICE

Analyst: Neburka

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	280,102,391	303,642,384	309,033,782	318,475,460
Lottery Funds	7,740,839	8,145,961	9,073,617	10,004,076
Other Funds	101,465,180	158,371,032	146,073,822	164,937,371
Federal Funds	6,420,284	12,274,226	12,639,865	12,616,262
Total Funds	**395,728,694**	**482,433,603**	**476,821,086**	**506,033,169**
Positions	1,314	1,370	1,363	1,402
FTE	1,268.08	1,346.62	1,342.08	1,382.29

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 $506 million, with $318.5 million General Fund, $164.9 million Other Funds, $10 million Lottery Funds, and $12.6 million Federal Funds. The budget includes 1,402 positions (1,382.29 FTE). The total funds budget is 4.9% higher than the legislatively approved 2017-19 budget. General Fund increased by 4.9%, a comparatively modest increase that masks significant General Fund investments agency-wide, offset by a fund shift of $8.5 million from General Fund to Other Funds (marijuana tax revenues), and by phasing out $15.5 million in one-time General Fund expenses and $12.9 million in one-time Other Funds expenditure limitation associated with the cost of fighting wildfires during the 2017 and 2018 fire seasons.

The Legislature made significant investments in OSP infrastructure, including:

- $4,153,056 General Fund to support the State Police's 35% share of the State Radio System.
- $3,160,562 General Fund for mobile technology lifecycle replacements.
- $2,626,579 General Fund for the last phase of a three-biennia vehicle purchase program, intended to provide every trooper with his or her own assigned vehicle.
- $9,523,086 General Fund, $1,668,298 Other Funds expenditure limitation, and 26 positions (26.21 FTE) to resolve double-filled and re-classified Patrol support positions, fund shift differential and overtime budget shortfalls, and add new positions across the agency.

Additionally, Other Funds budget changes include:

- The transfer of the Ignition Interlock Device Program from the Oregon Department of Transportation to OSP. Expenses of $1,950,454 Other Funds expenditure limitation and five positions (5.00 FTE) are fully supported with fees authorized in HB 3005 (2019).

- Participation in the Oregon Department of Fish and Wildlife's (ODFW) Anti-Poaching Initiative, $2,389,141 Other Funds expenditure limitation and five positions (5.00 FTE). This ODFW program is General Fund-supported; the pass-through payments to OSP are recorded and spent as Other Funds.
- A one-time increase of $3.6 million Other Funds expenditure limitation in the Regional Hazardous Materials Emergency Response Team program in the Office of the State Fire Marshal. The increase will allow the program to spend accumulated fund balance on replacement vehicles and equipment for the thirteen hazardous materials response teams located throughout the state.

An additional $3.1 million total funds in statewide reductions was taken across all divisions to implement reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments. These and other budget issues are discussed in more detail in subsequent sections.

Patrol Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	133,694,672	145,274,792	163,012,666	169,851,016
Other Funds	13,717,752	20,634,034	17,830,199	19,830,260
Federal Funds	153,138	383,195	406,124	404,687
Total Funds	**147,565,562**	**166,292,021**	**181,248,989**	**190,085,963**
Positions	520	542	537	543
FTE	500.50	531.17	528.25	534.25

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 and interstate highways. This Division includes the field command and support staff as well as the Capitol Mall Security, Oregon State University, and 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.

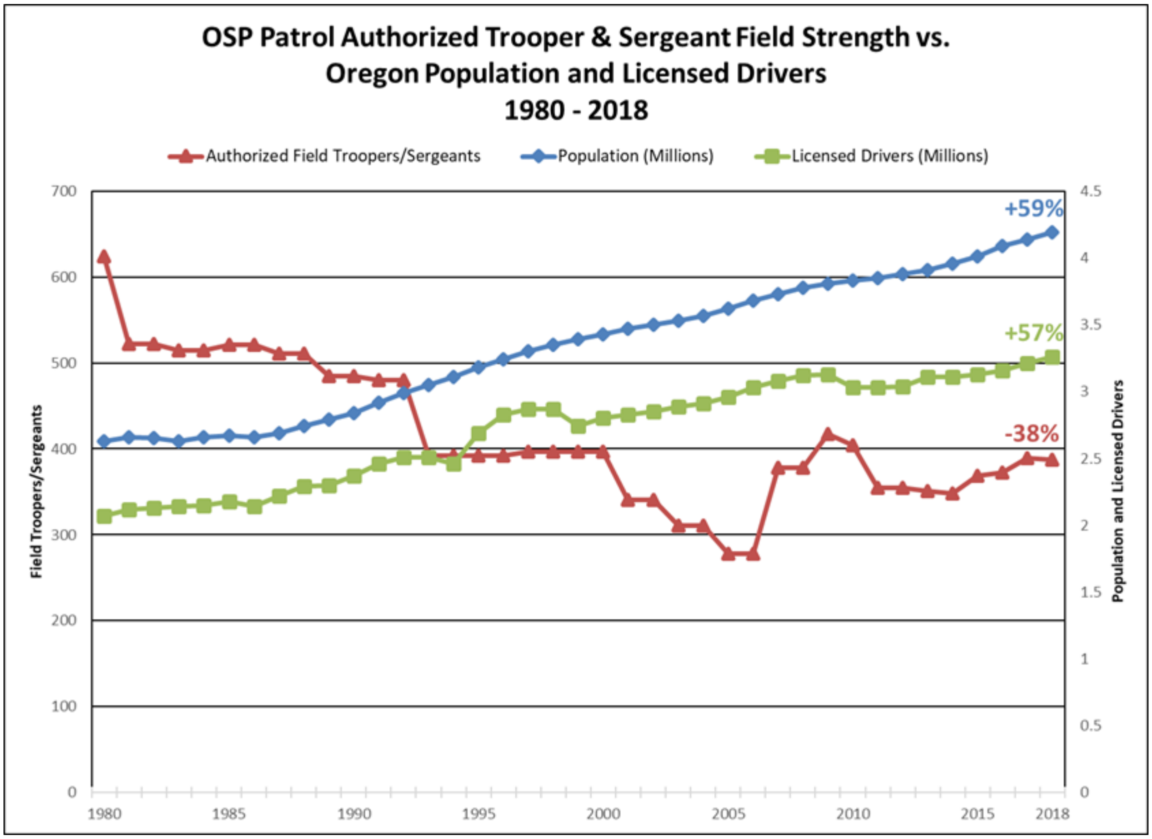
Revenue Sources and Relationships

The majority (89%) of the Patrol Division budget is funded by the General Fund. Other Funds revenues totaling $19.8 million are received from various other entities, and include:

- $6 million from ODOT for a variety of purposes, including traffic safety patrols in highway construction zones, snow-park enforcement, and DMV vehicle identification (VIN) inspections.
- $4.9 million from Oregon State University for campus security.
- $9.4 million from the Legislative Administration Committee and the Department of Administrative Services for Capital Mall security, including in the Capitol Building and the Supreme Court Building.
- $0.4 million from various fees, fines, and civil penalties; and from other state agencies including the State Parks and Recreation Department and the Oregon State Fair.

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 field 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, 63% of the 18,914 calls for service the Patrol Division received in Josephine County from January 2012 through December 2018 were referred to OSP by the Josephine County Sheriff's Office.



Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Patrol Division of $190.1 million total funds is 14.3% greater than the 2017-19 legislatively approved budget. The General Fund portion of the budget ($169.9 million) is 16.9% higher than 2017-19. This budget includes a one-time General Fund appropriation of $2.6 million to complete a six-year plan to purchase an additional 100 patrol vehicles, a $3 million General Fund appropriation with $26,176 of Other Funds expenditure limitation to fund overtime and shift differential expenses, and a $2.5 million General Fund appropriation with $21,492 of Other Funds expenditure limitation to replace mobile data terminals and in-car video systems in Patrol Division vehicles. The Ignition Interlock Device Program is added with $1.9 million Other Funds expenditure limitation and five positions (5.00 FTE), and one position (1.00 FTE) and $131,659 Other Funds expenditure limitation is added to support the Oregon State University Patrol Services program. A total funds reduction of $1.4 million implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Fish and Wildlife

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	7,186,072	9,353,387	10,401,303	9,950,445
Lottery Funds	7,740,839	8,145,961	9,073,617	10,004,076
Other Funds	24,117,676	26,844,622	26,374,611	30,644,565
Federal Funds	1,685,751	2,494,323	2,637,759	2,630,801
Total Funds	**40,730,338**	**46,838,293**	**48,487,290**	**53,229,887**
Positions	135	136	136	142
FTE	125.12	126.62	126.62	132.62

Program Description
The Fish and Wildlife Division is the single enforcement entity designated by law to protect fish and wildlife resources in Oregon. The Division's officers have special training in fish and wildlife law 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 ODFW ($29.5 million.) The Division also has smaller service contracts with the Oregon State Marine Board ($2.1 million) for enforcement of boating laws, the Parks and Recreation Department ($691,000) 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 ($1.3 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 2019-21 legislatively adopted budget for the Fish and Wildlife Division of $53.2 million total funds is 13.6% greater than the 2017-19 legislatively approved budget. The budget adds $2.4 million Other Funds from ODFW and adds five positions (5.00 FTE) to implement ODFW's Anti-Poaching Initiative; adds $1.9 million Other Funds from the Oregon State Marine Board and other agencies and adds one position (1.00 FTE) to support fish and wildlife enforcement on Oregon waterways; adds a $624,458 General Fund appropriation to replace mobile data terminals and in-car video systems in Fish and Wildlife Division vehicles; reduces General Fund and increases Measure 76 Lottery Funds by $1 million; and makes a total funds reduction of $342,635 to implement reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Criminal Investigations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	35,847,535	11,388,679	13,020,372	5,677,297
Other Funds	5,938,647	35,014,019	35,996,626	44,677,929
Federal Funds	1,228,025	1,723,731	1,576,855	1,574,421
Total Funds	**43,014,207**	**48,126,429**	**50,593,853**	**51,929,647**
Positions	122	131	130	135
FTE	122.00	130.40	130.00	135.00

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 $26.1 million of General Fund expenditures to marijuana tax revenues in the 2017-19 biennium, and an additional fund shift of $8.5 million from the General Fund to marijuana tax revenues in the 2019-21 biennium. Marijuana tax revenues assumed in the 2019-21 OSP budget total $38.9 million. Other revenues include sex offender registration fees ($543,000 Other Funds); arson investigation funding ($3.9 million Other Funds) from the State Fire Marshal in Fire Insurance Premium Tax revenue; fees from records requests, civil penalties, and state seizures ($1.8 million Other Funds); and federal funds for drug enforcement and grant programs ($1.4 million Federal Funds.)

Budget Environment

The major workload driver for this Division beyond the crime rate is the capacity and specialized expertise of local law enforcement agencies and their willingness to use OSP resources. State Police detectives are deployed across the state, but the larger local law enforcement agencies have many more resources available than smaller agencies. For eastern Oregon, the coast, and other more rural areas of the state, OSP sometimes is the primary resource available to assist local jurisdictions with investigation of major crimes.

The Department asserts that the workload and the complexity of investigations have generally increased in all areas, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph, and public official corruption cases. During 2016-17, the Division conducted over 12,000 investigations, including 3,074 investigations related to drug enforcement, 484 related to explosives, and 338 related to fires; 5,167 child abuse investigations; and 138 computer forensics investigations. In the 2017-19 biennium, detectives participated in county child abuse multi-disciplinary teams; 26 interagency major crime teams; 14 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 their local law enforcement presence due to county financial constraints. For example, in 2018, OSP investigated 1,960 child abuse cases; 1,658 of those were reported in the Southwest region, with 886 cases in Josephine County alone. Overall, Major Crime Team call-outs in the Southwest Region have increased by approximately 104% in 2017 (57) compared to 2011 (28).

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $51.9 million total funds is 7.9% greater than the 2017-19 legislatively approved budget. This budget includes a fund shift of $8.5 million of General Fund expenditures to marijuana tax revenues, and an appropriation of $1.3 million General Fund, $361,118 Other Funds expenditure limitation, and five positions (5.00 FTE) to resolve five double-filled positions and to fund overtime and shift differentials. A total funds reduction of $308,730 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Forensic Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	37,357,995	42,044,913	47,841,316	48,660,322
Other Funds	147,539	1,567,723	1,269,525	621,045
Federal Funds	1,049,700	2,587,245	2,700,804	2,695,226
Total Funds	**38,555,234**	**46,199,881**	**51,811,645**	**51,976,593**
Positions	136	137	137	138
FTE	130.75	137.00	137.00	137.76

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, 92% 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. Just over $600,000 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 55,862 and 53,773 evidentiary submissions in the 2013-15 and 15-17 biennia, respectively. Based on current trends, the Division anticipates an additional 5% increase, or more than 64,679 evidentiary submissions, from the 2017-19 to the 2019-21 biennium. The Division completes analytical requests within its 30-day turnaround time goal only 24% 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 15% 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 21 offender submissions, with a nearly 53% "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 15% annually over the past five years, a backlog of cases remains.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $52 million total funds is 12.5% greater than the 2017-19 legislatively approved budget. This budget includes $647,326 General Fund, $14,692 Other Funds expenditure limitation, and two positions (1.76 FTE) to reclassify one position, add two new positions in the Forensics laboratory, and fund overtime and shift differentials; shifts rent expense for the Pendleton Laboratory from marijuana tax revenues to ongoing General Fund for no net change; and reduces $279,376 General Fund and abolishes one position (-1.00 FTE) to pay for the establishment of one forensic anthropologist position in the Medical Examiner's Office. A total funds reduction of $217,694 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Office of the State Medical Examiner

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,684,741	4,779,767	5,091,649	5,927,229
Other Funds	167,415	285,275	308,004	307,729
Total Funds	**4,852,156**	**5,065,042**	**5,399,653**	**6,234,958**
Positions	9	9	9	13
FTE	9.00	9.00	9.00	12.50

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 9,300 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 Portland - 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. The Medical Examiner's Office is involved in determining the cause and manner of death in more than 13% 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 a 40-hour Certified Medicolegal Death Investigator Course to Oregon medical examiners, district attorneys, law enforcement, and medical professionals.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $6.2 million total funds is 23.1% greater than the 2017-19 legislatively approved budget. Two deputy medical examiner positions, one laboratory technician position, and one forensic

anthropologist position (3.50 FTE) are established, funded with $833,092 General Fund, elimination of the Medical Examiner's contract services budget line item, and the abolishment of one Forensic Scientist position in the Forensics Division. An increase of $23,510 total funds fund overtime and shift differentials, and a total funds reduction of $21,297 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Agency Support Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	36,311,019	40,717,035	45,768,773	52,007,682
Other Funds	3,601,573	3,433,887	3,660,518	3,697,441
Federal Funds	148,747	152,513	163,155	162,374
Total Funds	**40,061,339**	**44,303,435**	**49,592,446**	**55,867,497**
Positions	124	139	141	147
FTE	122.56	139.07	141.53	147.53

Program Description

Agency Support Services provides services that are required for operating police/patrol programs. Those specific "sworn" support services include 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. Basic agency administrative, human resources, and financial services are budgeted in the Administrative Services program.

Revenue Sources and Relationships

Other Funds and Federal Funds revenues are provided through a cost allocation plan that charges the non-General Fund resources within the Patrol, Fish and Wildlife, Criminal Justice Information System, and Office of the State Fire Marshal divisions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for Agency Support Services is $55.9 million total funds, which is 26.1% higher than the 2017-19 legislatively approved budget. Investments in Agency Support Services include $434,254 General Fund and one position (1.00 FTE) to establish one executive-level position to provide management oversight to both the Forensic Services Division and the Office of the State Medical Examiner; $2 million General Fund, $56,478 Other Funds expenditure limitation, and five positions (5.00 FTE) to resolve four double-filled and two reclassified positions, and to fund overtime and shift differentials; and $4.1 million General Fund to pay OSP's 35% share of the cost of maintaining and replacing the State Radio System's capital equipment. A total funds reduction of $327,303 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Administrative Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,174,528	17,406,038	15,968,820	17,961,334
Other Funds	5,337,930	6,164,684	6,036,561	6,164,211
Federal Funds	175,660	460,096	477,580	477,015
Total Funds	**20,688,118**	**24,030,818**	**22,482,961**	**24,602,560**
Positions	77	84	78	86
FTE	70.46	77.89	75.21	84.49

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 and Federal 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.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Administrative Services Division of $24.6 million total funds is 2.4% higher than the 2017-19 legislatively approved budget. An investment of $2.4 million General Fund, $169,196 Other Funds expenditure limitation, and eleven positions (10.78 FTE) resolves seven double-filled positions and seven re-classified positions, adds four new accounting, budgeting, information technology, and procurement positions, and funds overtime and shift differential expenses. The Statistical Transparency of Policing (STOP) Program was transferred to the Criminal Justice Commission, reducing $360,374 General Fund and three positions (-1.50 FTE), and a total funds reduction of $138,377 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Criminal Justice Information Systems

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	7,234,262	6,132,907	7,494,659	7,467,045
Other Funds	10,515,203	17,407,975	18,090,587	18,133,609
Federal Funds	1,486,592	3,948,533	4,132,355	4,127,042
Total Funds	**19,236,057**	**27,489,415**	**29,717,601**	**29,727,696**
Positions	88	89	95	95
FTE	86.51	92.21	94.21	95.00

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, the Law Enforcement Data System (LEDS) and the 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

Other Funds supports 61% of this Division's operations. The major source of Other Funds revenue comes from fees for Identification Services including records checks of criminal histories, firearms, concealed gun, and employment and licensing background checks ($14.8 million). The Division also receives federal grant funds from the U.S. Department of Justice ($4.1 million) for improving criminal history records.

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. LEDS functions as the control point for access to similar programs operated by other states and the federal government; undertakes 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 2019, the agency has implemented the new message switch and user interface systems and had conducted user acceptance testing. Additional data migration and user interface phases of the project are underway as of this writing, with an estimated project completion date of October 2020. The total project cost is currently estimated to be $14.3 million.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Criminal Justice Information Systems Division of $29.7 million total funds is 8.1% more than the 2017-19 legislatively approved budget. Modest changes include $19,568 General Fund, $185,104 Other Funds expenditure limitation, and 0.79 FTE for three re-classified positions, overtime, and shift differential expenses. A total funds reduction of $194,577 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Gaming Enforcement Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	977,832	--	--	181,456
Other Funds	10,351,486	10,878,933	12,086,196	12,116,513
Total Funds	**11,329,318**	**10,878,933**	**12,086,196**	**12,297,969**
Positions	35	35	35	36
FTE	35.26	35.26	35.26	36.26

Program Description

The Gaming Enforcement 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 ($8.1 million). Native American Tribes fund the Tribal Gaming Section activities ($3.7 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors conducting business with Oregon's Gaming Tribes ($1.1 million). License fees and a gross receipts tax (6%) fund the Oregon Athletic Commission regulatory activities ($247,000). 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 56 scratch-it games per year, and has about 3,960 lottery retailers with nearly 11,000 video lottery terminals throughout the state. The Lottery Security Section conducts background investigations on all prospective Lottery employees, game retailers, vendors, and contractors; and conducts compliance inspections on Lottery retailers with a goal of inspecting 75% of retailers each year.

Currently, there are eight tribal casinos operating over 7,200 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 2019-21 legislatively adopted budget for the Gaming Division of $12.3 million total funds is 13% more than the 2017-19 legislatively approved budget. This budget includes an investment of $181,456 General Fund, $100,058 Other Funds expenditure limitation, and one position which will resolve one double-filled position and one re-classified position, and fund overtime and shift differential costs. A total funds reduction of $69,741 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

State Fire Marshal

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,633,735	26,544,866	434,224	435,274
Other Funds	27,569,959	36,139,880	24,420,995	28,595,229
Federal Funds	492,671	524,590	545,233	544,696
Total Funds	**29,696,365**	**63,209,336**	**25,400,452**	**29,575,199**
Positions	68	68	65	67
FTE	65.92	68.00	65.00	66.88

Program Description

The Office of the State Fire Marshal (OSFM) protects life and property from fire and hazardous materials. It contains 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

This Division is almost completely supported by Other Funds. 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 the FIPT funds are transferred to the Department of Public Safety Standards and Training ($5.5 million) and to the OSP Criminal Investigation Division ($3.9 million), $1 million supports internal administrative functions, and the remainder ($16.5 million) is used for State Fire Marshal programs.

Additional Other Funds revenues are generated through the hazardous substance user fees ($4.6 million) for the Community Right to Know program; petroleum load fees ($5.3 million) for the Hazardous Response Teams; non-retail fuel dispensing fees ($840,000) for card lock enforcement; licenses and permits (relating to liquefied petroleum gas and fireworks) totaling $890,000; and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($528,000). Federal Funds revenue of $566,000 is from Hazardous Materials Emergency Preparedness grants from the U.S. Department of Transportation.

Budget Environment

Western states, including Oregon, have seen more severe firefighting seasons than usual for the past several summers, 2019 excepted. The Governor declared 6 conflagrations in 2015, 3 conflagrations in 2016, 4 conflagrations in 2017, and 11 conflagrations in 2018. 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; expenses for 2017 and 2018 totaled $33.2 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 both fiscal complexity for the agency due to the cash “float” required, and a shortfall for the state, as federal reimbursements have lagged for up to four years after an incident.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Office of the State Fire Marshal of $29.6 million total funds is 53.2% less than the 2017-19 legislatively approved budget. This large reduction is entirely due to the phase-out of $28.3 million one-time funds for 2017 and 2018 fire season costs. This budget includes a modest investment of $2,444 General Fund, $629,424 Other Funds expenditure limitation, and two positions (1.88) for two new positions, and overtime and shift differential costs. A one-time increase of $3.6 million Other Funds expenditure limitation in the Regional Hazardous Materials Emergency Response Team program will allow the program to spend accumulated fund balance on replacement vehicles and equipment for the 13 hazardous materials response teams located throughout the state, and a total funds reduction of $57,121 implements reductions to state government service charges, Attorney General rates, PERS rate adjustments, and other statewide assessments.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	356,360
Other Funds	--	--	--	148,840
Total Funds	**--**	**--**	**--**	**505,200**

Program Description

SB 236 (2015) gave the Oregon State Police the authority to own real property. In 2017, the Department of Administrative Services transferred ownership of the Central Point patrol facility to OSP, which assumed the four years of debt service remaining on bonds issued in 2002 to upgrade the Forensics Lab in the facility. The 2017-19 legislatively adopted budget included a budget-neutral action that converted $508,000 of rent expense into principal and interest payments on the debt.

Legislatively Adopted Budget

Debt service is broken out in a separate OSP budget structure for the first time in 2019-21. The total funds budget of $505,200 is 0.5% less than debt service paid in 2017-19.

DEPARTMENT OF PUBLIC SAFETY STANDARDS AND TRAINING

Analyst: Neburka

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,052,511	9,795,963	9,665,010	9,665,010
Other Funds	39,321,468	49,438,284	50,395,589	48,102,591
Federal Funds	6,394,657	8,338,314	7,364,566	7,689,376
Total Funds	**55,768,636**	**67,572,561**	**67,425,165**	**65,456,977**
Positions	154	166	157	152
FTE	146.58	157.97	155.21	149.87

Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 45,000 public and private safety professionals in Oregon through five programs:

- Criminal Justice Training and Certification Program – Provides training and certification for state troopers, city, county, tribal and university police, sheriff deputies, local correctional officers, parole and probation officers, 9-1-1 telecommunicators, emergency medical dispatchers, Oregon Liquor Control Commission (OLCC) regulatory specialists, 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), three weeks for telecommunicators, and one week for emergency medical dispatchers. The first training class for the certification of regulatory specialists was in 2016, mandated by SB 1528 (2012). The Department of Corrections (DOC) continues to train its correctional officers using a Board-approved curriculum with DPSST auditing 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 13,000 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 Board-approved requirements.
- Private Security Program – Provides training and licensing to private security providers, private investigators and polygraph examiners to enhance professionalism, assist in meeting minimum standards and enforces certification and licensure requirements when applicable and necessary. There are about 1,500 private security entities/businesses that provide private security services and almost 22,000 private security providers statewide. There are approximately 772 active licensed private investigators in the state of Oregon and approximately 50 licensed polygraph examiners.
- Administration and Support Services Program – Includes the director's office, business and human resource functions, and information systems. In addition, this program 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 (HIDTA) 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 $7.4 million in the 2019-21 biennium to support the 26 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 2005. 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

Program Area	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Criminal Justice	20,122,457	26,925,694	26,987,494	24,441,833
Fire Training	4,532,564	6,886,425	4,958,540	5,277,191
Private Security	2,130,437	2,489,187	2,523,497	2,727,462
Admin and Support	13,200,317	14,116,040	15,646,381	15,702,565
Debt Service	9,550,468	9,795,963	9,665,010	9,665,010
PS Memorial Fund	161,247	269,438	279,677	279,495
Oregon HIDTA	6,071,146	7,089,814	7,364,566	7,363,421
Total Funds	**55,768,636**	**67,572,561**	**67,425,165**	**65,456,977**

Revenue Sources and Relationships

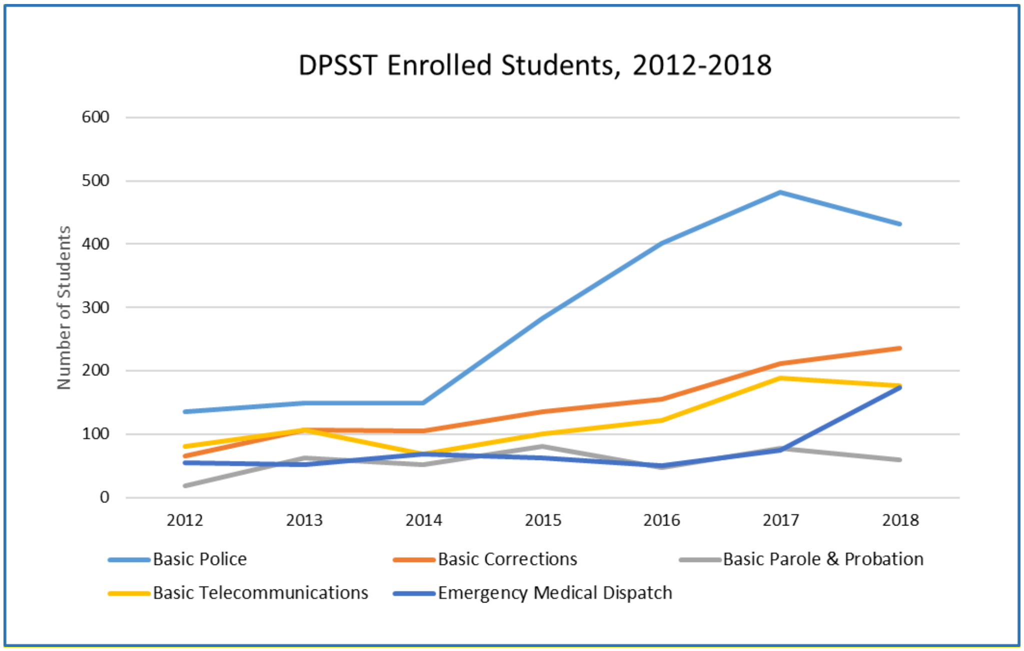
General Fund resources support only debt service payments for the training facility in Salem. The agency's primary source of funding is an allocation from the Criminal Fine Account (CFA) totaling $32 million, which supports the Criminal Justice Training and Certification, Administration, and Support Services Programs, and the Public Safety Memorial Fund. The second largest source of Other Funds is a transfer of $5.5 million of Fire Insurance Premium Tax (FIPT) revenue from the Department of State Police, Office of the 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 ($0.8 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. The agency annually applies for and receives a federal Assistance to Firefighters grant averaging about $0.4 million from the U.S. Department of Homeland Security, available to state fire training academies for equipment, personal protective equipment, and vehicle acquisition.

Budget Environment

While not the sole source of continuing public safety training, DPSST is the sole provider of the statutorily mandated Basic criminal justice training, and is a primary provider of essential and perishable skills training for public safety professionals throughout Oregon. As local economies improved in the aftermath of the most recent recession and as the number of retiring "baby boomers" increased, state and local public safety agencies increased hiring in order to fill vacant positions. Demand for Basic Police classes increased dramatically between 2014-2017, leveling off during 2018. The 2019-21 budget reduced the number of budgeted Basic Police classes from 20 to 16, but the agency may need to add classes to its 2019-21 schedule in order to certify new public safety officers in a timely manner in the event that public safety agency hiring picks up again.



HB 2355 (2017) created the Statistical Transparency of Policing (STOP) Program, which 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 program required DPSST to develop and provide training and procedures to law enforcement agencies in order for them to begin collecting data by July 1, 2018, and the 2017-19 legislatively approved budget contained $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. The 2019-21 legislatively adopted budget continues investment in the STOP program with Other Funds expenditure limitation of $329,156 and two training positions (1.50 FTE) to provide training and technical assistance to local police agencies related to the prevention of profiling.

As of 2015, fiduciary responsibility for Oregon's federal HIDTA grant program transferred from the Department of Justice (DOJ) 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 2019-21 biennium are projected at $7,510,678. Of this amount, $2,688,392 will be transferred to DOJ for its HIDTA initiative; $4,214,456 will be granted to Oregon cities, counties, or multi-jurisdictional entities for drug trafficking reduction initiatives; and $606,685 will be used by DPSST for grant accounting and administrative support.

The Oregon Public Safety Academy campus is 14 years old, and though the buildings are comparatively new and well-maintained, the facility is heavily used, and emergency repairs to fire and life-safety systems were required in 2017. A Facility Conditions Assessment was completed for the Public Safety Campus in 2018, which identified $19.8 million of deferred maintenance items needing attention in the upcoming ten-year period. Of these projects, repairs to or replacement of various plumbing fixtures, kitchen equipment, heating units, and HVAC systems are identified as "currently critical" needs. Additional repairs to gutters and downspouts, exterior caulking and sealing, and window replacements are identified as "potentially critical," and the 2019-21 budget includes $436,945 Other Funds expenditure limitation on a one-time basis for these deferred maintenance projects.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for this agency is $65.5 million total funds, which is 3.1% less than the 2017-19 legislatively approved budget and 2.9% less than the current service level. Several budgetary actions net to this modest change in funding:

- The legislatively adopted budget reduced four Basic Police training classes and eliminated eight positions (8.00 FTE), for a Criminal Fines Account revenue savings of $2.5 million. An additional $428,082 of budgetary savings was achieved by eliminating the inflationary increment on services and supplies.
- A $325,955 federal Assistance to Firefighters grant award was carried over into 2019-21 to purchase a new fire truck.
- The Statistical Transparency of Policing (STOP) program was increased by $329,156 and two positions (1.50 FTE).
- One position (0.83 FTE) and $211,676 Other Funds expenditure limitation was added to the fee-supported Private Security and Investigators program.
- $436,945 Other Funds expenditure limitation (Criminal Fines Account) is provided on a one-time basis to address deferred maintenance items identified as “currently critical” or “potentially critical” in DPSST’s 2018 Facility Condition Assessment.

OREGON YOUTH AUTHORITY

Analyst: Neburka

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	290,295,711	312,595,798	336,271,676	330,726,201
Other Funds	55,497,491	60,852,433	7,316,478	14,553,422
Federal Funds	26,348,882	37,328,320	40,671,277	40,643,083
Total Funds	**372,142,084**	**410,776,551**	**384,259,431**	**385,922,706**
Positions	1,014	1,023	972	1,008
FTE	981.80	950.68	944.13	980.88

Overview

The Oregon Youth Authority (OYA) is a fundamental partner in the state's juvenile justice system. Its statutory purpose is to protect the public, hold youth offenders accountable for their actions, and provide youth offenders with opportunities for reform in safe environments. OYA works closely with county juvenile departments, the judicial system, and other youth-serving systems.

OYA provides a balanced continuum of services through a statewide network of close-custody facilities and contracted community providers. OYA manages out-of-home placement of youth in foster homes and General Fund, Other Funds and Medicaid-funded residential treatment programs; provides parole and probation services; provides funding to counties for basic juvenile crime prevention services and diversion from OYA commitment; and operates the state juvenile corrections institutions. Youth correctional facilities are located in Albany, Burns, Grants Pass, Tillamook, and Woodburn; transition facilities 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 in the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court 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 who are convicted of certain offenses. OYA is funded to provide 610 close-custody beds. Approximately half of the close custody capacity is for youth adjudicated in juvenile court. The remaining beds are for youth convicted in adult court or waived on Measure 11 offenses.

Revenue Sources and Relationships

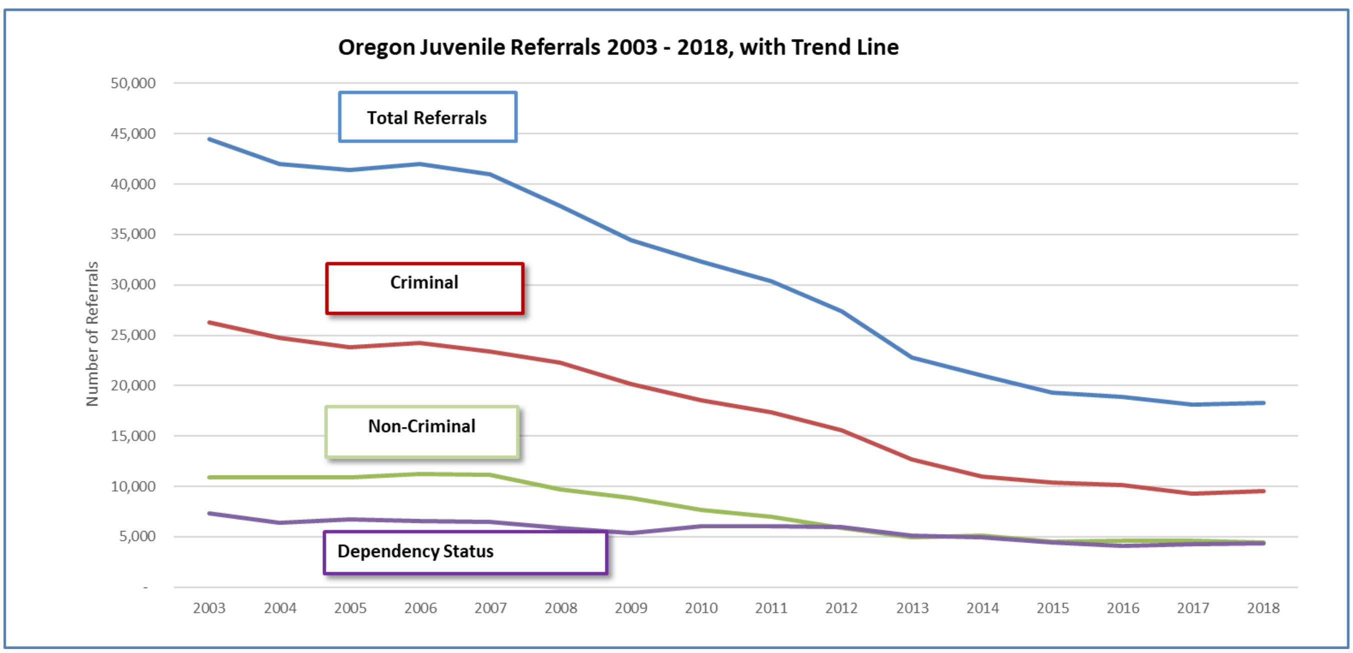
General Fund supports the majority of OYA's activities and operations. Typically, anywhere from 9% to 11% of the total operating budget comes from Federal Funds, and about 3% to 6% from Other Funds. The extensive capital construction program started in 2015-17 is bond-financed (Other Funds).

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 48.9% of the funding for residential treatment and about 17% of parole and probation staff personnel costs. Overall, federal fund reimbursements will cover about 29% of the Community Services program costs in the 2019-21 biennium. Residential treatment room and board costs are supported with General Fund.

The largest Other Funds sources of operating revenues are child support recovery and youth trust fund reimbursements, and the U.S. Department of Agriculture (USDA) School Nutrition Program. The budget includes $2.6 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; and $2 million from the USDA School Nutrition Program.

Budget Environment

The majority of 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 2003 and 2018 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 2003–2018 period: felony (-63.6%) and misdemeanor (-63.4%). 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 almost completely flat (0.1% decrease from 2003 to 2018). Of the 11,856 youth who received a disposition on a referral in 2018, 20% were adjudicated delinquent and 17% of those adjudicated youth (3.4% 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.

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.

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 recommended the following facility improvements. The current status of these improvements is noted in italicized font.

- 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. ***Underway, as of 7/1/2019***
- Constructing 6, 16-bed single occupancy units at MacLaren. ***Complete***
- Closing the Hillcrest facility by June 30, 2017. ***Complete.***
- Opening and operating the existing young women's transitional housing facility at Oak Creek. ***Complete***
- Improving youth intake. ***Underway, as of 7/1/2019***
- Improving other facilities, such as adding a machine shop for expanded vocational education at the Burns facility. ***Complete***
- Addressing ADA, seismic, and deferred maintenance needs statewide. ***Underway, as of 7/1/2019***

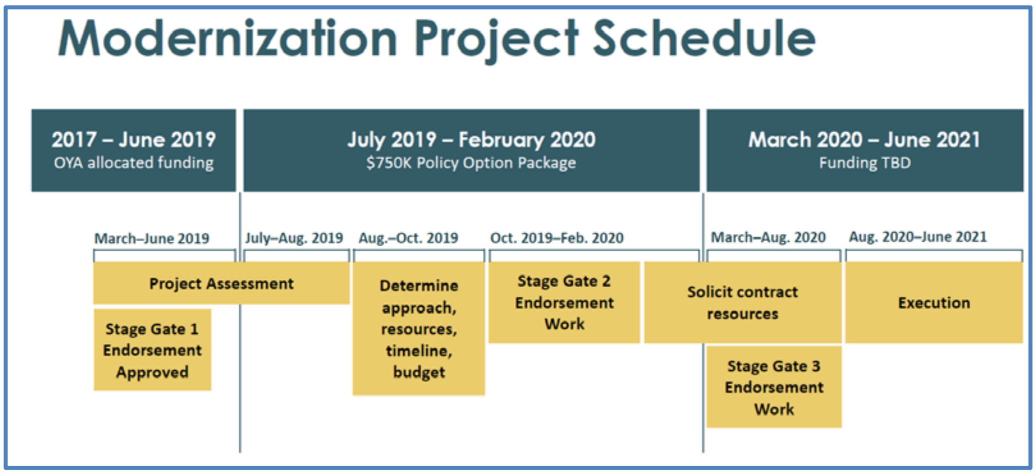
In 2015, the Legislature authorized $49 million in bond proceeds to fund the first half of the plan's implementation. The 2017-19 legislatively adopted budget included $49.3 million in additional Article XI-Q bond proceeds and 6-year capital construction expenditure limitation to continue construction on improvements throughout the system as laid out in the 10-Year Strategic Plan. Some construction timelines have slipped and some estimated construction costs have increased; pending further modifications to the project scope, the revised timeframe for completion is June 2023.

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 92% compliance, as reported in the September 2018 progress report to the interim Judiciary Committees.

Oregon is one of only three states in the nation to employ a statewide database for youth in the justice system. The Juvenile Justice Information System (JJIS) is used by OYA and by all 36 county juvenile departments for youth case management; the system is based on "one youth, one record," and contains over 20 years of data on the nearly half a million youth who have come into contact with the juvenile justice system in Oregon. This dataset is the foundational data source for the agency's Youth Reformation System, and supports program evaluation, case planning, legislation, policy development, and the predictive analytic tools used to manage risk and to match youth with services most likely to reduce recidivism.

JJIS was implemented in 1995 and its user interface is now functionally obsolete and unsupported by the vendor. Because it has no mobile capabilities, the current version of JJIS can only be accessed at the authorized user's desk. Juvenile justice professionals across Oregon can't access JJIS via the web or mobile devices, which impedes their ability to make operational and data-informed decisions while engaging with youth at all hours in their homes, schools, or in the communities in which they live. In addition, the ability to integrate and interface JJIS with other applications is limited, which inhibits the Department's ability to develop key connections with other internally deployed or partner agency systems.

If JJIS fails because of obsolete technology, more than 2,500 juvenile justice workers will be unable to adequately do their jobs. OYA would have to completely restructure accounting operations related to youth services, including child support, Supplemental Security Income (SSI), youth trust accounts, and contracted provider payments. Additionally, if county-level juvenile justice agencies find that JJIS is not meeting their business needs (which is increasingly the case), they will stop using JJIS and pursue the acquisition and deployment of separate information systems. This would jeopardize the "one youth, one record" system that Oregon's juvenile justice system relies upon for decision support. The 2019-21 legislatively adopted budget includes $750,000 General Fund to begin the JJIS Modernization Project.



Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $385.9 million total funds is 6% less than the 2017-19 legislatively approved budget; the General Fund budget of $330.7 million is 5.8% higher than 2017-19 and 1.6% less than current service level. The total funds reduction is the result of a $43 million reduction in Other Funds expenditure limitation for capital construction, described in more detail below. 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.

Agency-wide changes include:

- Reduced funding for community residential treatment beds of $2.2 million General Fund, to reflect lower-than-anticipated demand for residential treatment services.
- $750,000 General Fund and $24,218 Federal Funds expenditure limitation for planning an upgrade to the Juvenile Justice Information System.
- Increased funding of $560,699 General Fund for Vocational Education Services for Older Youth (VESOY) service providers.
- $155,655 General Fund and 0.75 FTE for improved dental services available to young women in the Oak Creek Youth Correctional Facility.
- A $6 million net-zero re-allocation of budgeted funds between program areas, which added 33 positions (33.00 FTE) in the Facilities program and three positions in Program Support, and reduced residential treatment beds by 60 in the Community Services program.

- $6,369,577 in Other Funds six-year Capital Construction expenditure limitation, to renovate medical and dental clinic spaces at the Tillamook and Oak Creek Youth Correctional Facilities, to renovate the infirmary and pharmacy spaces at MacLaren, and to update control rooms in OYA facilities.

Facility Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	161,441,406	160,971,633	168,435,919	173,988,526
Other Funds	4,486,501	7,866,055	4,896,783	5,669,150
Federal Funds	--	8,162	129	129
Total Funds	**165,927,907**	**168,845,850**	**173,332,831**	**179,657,805**
Positions	761	753	704	737
FTE	729.79	681.43	676.50	710.25

Program Description
OYA operates close-custody facilities across the state with varying levels of security and structure and a range of treatment services. Facilities include:

- Oak Creek Youth Correctional Facility (YCF) for young women and the Young Women Transition Program (YWTP) 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 610 beds budgeted for 2019-21 includes 521 beds in five youth correctional facilities for youth adjudicated for more serious offenses, and 89 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, which serves a variety of populations, as well as providing statewide male intake and parole violator intake assessment activities. Other facilities range in size from 14 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 through contracts 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 2003. 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 and 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 2018 Biopsychosocial Summary that 62% of male and 78% of female offenders in its custody have been assessed as substance-abusive or -dependent. Further, about 77% of the males and 90% 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 made the program ongoing.

Legislatively Adopted Budget

The legislatively adopted total funds Facilities budget of $179.7 million is 6.4% higher than the 2017-19 legislatively approved budget, and is 3.6% more than the current service level budget. The significant change to this program is the establishment of 30 Group Life Coordinator 2 positions ($4.7 million General Fund) in the close custody facilities to provide relief staff coverage on an ongoing basis. These positions replace temporary staff used for relief coverage, and eliminate 30 double-filled positions; they are funded by a reduction in the budget for community residential treatment beds in the Community Services Division, for a net zero impact to the agency's budget in the 2019-21 biennium.

Other modest changes include:

- Establishing three positions (3.00 FTE) to improve the provision of substance abuse, psychological, and health services in close custody facilities, $603,346 General Fund. This budget increase is funded by a reduction in the budget for community residential treatment beds in the Community Services Division, for a net zero impact to the agency's budget in the 2019-21 biennium.
- Increasing the FTE of three Dental Services positions to provide dental services more efficiently to young women at the Oak Creek Youth Correctional Facility, $155,655 General Fund and 0.75 FTE.
- Providing $560,699 General Fund to improve the rate paid to providers of Vocational Education Services for Older Youth (VESOY).
- Statewide budget changes that net to $270,274 total funds, including reductions to State Government Service and Attorney General charges, PERS rate adjustments, changes to other assessments, and the cost of issuance on bonds authorized in HB 5005 (2019).

Community Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	79,834,316	94,897,126	103,206,777	94,812,977
Other Funds	1,898,222	3,590,925	2,340,247	2,340,247
Federal Funds	25,053,891	35,995,745	39,142,262	39,101,434
Total Funds	**106,786,429**	**134,483,796**	**144,689,286**	**136,254,658**
Positions	140	140	138	138
FTE	139.25	139.25	137.63	137.63

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 2019, OYA had 400 youth in the community on probation and 330 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 in the 2017-19 biennium.

Funding for Behavioral Rehabilitation Services may need to be revisited again due to the passage of SB 171 (2019), which requires the Oregon Department of Human Services (DHS) to make program changes to align state law and practice with requirements under the federal Family First Prevention Services Act. Some of these requirements may increase the payments made to service providers used by both DHS and OYA that are qualified residential treatment programs (QRTP); other requirements prohibit DHS from placing a child or state ward in a residential care facility that also serves OYA or county juvenile department youth, which may limit resources available to the Department.

Legislatively Adopted Budget

The Community Programs 2019-21 legislatively adopted total funds budget of $136.3 million is 1.3% more than the 2017-19 legislatively approved budget and 5.8% below the current service level. This level of funding provides about 380 community treatment, foster care, and residential beds, reduced from a funded bed level of 500 in the 2017-19 biennium. As of July 2019, the agency housed an average of 304 youth in residential placements throughout the state.

The 2019-21 payments to counties for juvenile crime prevention and diversion are set at $19.2 million General Fund. State support for gang prevention, intervention, and enforcement activities in Multnomah County is budgeted at $5.7 million General Fund, which is a 3.8% increase from 2017-19 service levels. The amount includes $2 million General Fund specifically designated for the East Metro Gang Enforcement Team and $3.7 million for Multnomah County gang intervention.

Program Support

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	42,934,078	43,897,090	48,008,565	48,312,857
Other Funds	93,333	76,539	79,448	79,448
Federal Funds	1,294,991	1,324,413	1,528,886	1,541,520
Total Funds	**44,322,402**	**45,298,042**	**49,616,899**	**49,933,825**
Positions	113	130	130	133
FTE	112.76	130.00	130.00	133.00

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, the Office of Professional Standards, and Development Services, which consists of offices that oversee Behavioral Health and Treatment Services, Education and Vocation, Family Engagement, Inclusion and Intercultural Relations, and the Youth Reformation System/Positive Human Development. 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 2019-21 Program Support total funds budget of $49.9 million is 10.2% higher than the 2017-19 legislatively approved budget and 0.6% above current service level. The budget includes $750,000 General Fund to move the Juvenile Justice Information System (JJIS) modernization project through Stagegate 2; three positions (3.00 FTE), $672,680 General Fund, and $21,737 Other Funds to establish two Information Systems Specialist positions and one Internal Investigator position; and a net total funds reduction of $1.2 million for statewide budget changes to State Government Service and Attorney General charges, PERS rate adjustments, and changes to other assessments.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	5,340,858	11,294,254	15,026,340	12,017,766
Other Funds	--	--	--	95,000
Total Funds	**5,340,858**	**11,294,254**	**15,026,340**	**12,112,766**

Program Description

OYA pays debt service on Article XI-Q bonds issued through the Department of Administrative Services. The 2019-21 budget includes $11.1 million General Fund for previously financed infrastructure and deferred maintenance needs in OYA's facilities and $0.9 million General Fund for new debt service on bonds anticipated to be sold during the current biennium. 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), MacLaren (Woodburn), Rogue Valley (Grants Pass), 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 $49.3 million in new debt obligations in 2017-19, and another $34.4 million was approved for 2019-21. Bond sales planned for October 2019, March 2020, and May 2021 will require an additional $0.9 million General Fund for debt service in the 2019-21 biennium.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is set at a level to cover existing and new debt. The new debt service in the amount of $0.9 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 $34.4 million in Article XI-Q bonds. Cost of issuance is budgeted in the Facility Program.

Capital Improvements and Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	745,053	1,535,695	1,594,075	1,594,075
Other Funds	49,019,435	49,318,914	--	6,369,577
Total Funds	**49,764,488**	**50,854,609**	**1,594,075**	**7,963,652**

Program Description

The capital budgets reflect spending on OYA's 90 buildings at 7 locations, which have an estimated $219.2 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 2019-21 legislatively adopted budget includes $34.4 million in Article XI-Q bond proceeds for current and prior-biennia capital projects as laid out in the 10-Year Strategic Plan for Facilities. Ongoing projects include:

- The West 7 Cottages renovation project at the MacLaren Youth Corrections Facility (YCF) in Woodburn.
- Renovation of 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.

New capital construction 6-year expenditure limitation of $6.4 million will pay for the following:

- Renovations to the medical and dental clinic at the Tillamook Youth Correctional Facility.
- Renovations to the infirmary and pharmacy spaces at MacLaren.
- Renovations to the medical and dental clinic at the Oak Creek Youth Correctional Facility.
- Renovations to control rooms throughout the Department's close custody facilities.

The total 10-Year Plan cost is currently estimated at just over $100 million through 2019-21; the first four years' worth of projects both in progress and completed have cost $48.4 million as of March 31, 2019.

JUDICIAL BRANCH

JUDICIAL DEPARTMENT

Analyst: Jolivette

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	431,879,018	454,524,551	505,643,238	519,823,309
Other Funds	131,468,646	262,993,590	50,074,088	217,814,418
Federal Funds	1,176,014	1,344,289	1,357,254	1,355,846
Total Funds	**$564,523,678**	**$718,862,430**	**$557,074,580**	**$738,993,573**
Positions	1,727	1,900	1,899	1,935
FTE	1,588.12	1,776.58	1,784.72	1,817.22

<u>Overview</u>

The Oregon 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. 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 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, for the most part, non-represented employees who are overseen by a single administrative head (i.e., the Chief Justice). Circuit court judges and staff work in county-owned and -maintained buildings. Each presiding judge exercises a degree of autonomy in prioritizing the budget for local courts depending upon local needs.

The Department's 1,935 positions (1,817.22 FTE) are organized into the following program areas:

- Judicial Compensation – $87.3 million, 197.00 FTE. Funds the personal services costs of the state's 196 statutory judgeships.
- Appellate and Tax Courts – $27 million, 98.52 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 – $254.7 million, 1,310.66 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 – $77.2 million, 154.43 FTE. Includes the Office of the State Court Administrator, information systems management, fiscal and human resources management, and centralized state agency assessments.
- State Court Technology Systems – $22.8 million, 30.00 FTE. Funds the personal services costs and systems costs associated with developing, maintaining and supporting state court electronic applications, services, and systems including electronic filing services.

- Mandated Payments – $17.3 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 – $6.7 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 70.3% General Fund, 29.5% 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 and bond proceeds for the Supreme Court Building Renovation, General Fund supports approximately 92% of the remaining budget.

In the 2019-21 biennium, OJD is projected to generate an estimated $309.9 million in revenue from a variety of sources, including fines and forfeitures ($151.3 million), state court fees ($129.6 million), and individuals' contributions toward their public defense ($4.8 million). Compensatory fines and restitution, which are expected to total $22 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 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 ($7.3 million); State Law Library assessment revenues ($2.6 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 ($129.6 million, or 41.8%), the Criminal Fine Account ($119.8 million, or 38.7%), and cities and counties ($33.7 million, or 10.9%). OJD will retain approximately $6 million (or 1.9%), primarily for the State Court Technology Fund, which retains 8.85% of most major court filing fee collections. Moneys collected from individuals' contributions to their public defense through the Application/Contribution Program are transferred to the Public Defense Services 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 certain money owed to the state. 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 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. Several factors explain this growth, including increased collection costs which are included in the judgement and account for 25% of outstanding debt; limited discretion of judges to adjust fines and fees for ability to pay; and the fact that judgements can last between 20 and 50 years, depending on the type of debt owed. In addition, many patrons of the court are not able to pay. Half of OJD debt, for example, is owed in felony cases by individuals who are incarcerated and have no ability to pay.

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 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 2019-21 legislatively adopted budget of $738.9 million total funds is 2.8% greater than the 2017-19 legislatively approved budget. The budget supports 1,935 positions (1,817.22 FTE), a 2.3% increase in FTE from the prior biennium. The Department's operating costs are primarily supported by the General Fund. The $519.8 million of General Fund support is 14.4% higher than the prior biennium level. The agency is also projected to carry forward approximately $1.5 million of General Fund from 2017-19, which will be added to its 2019-21 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:

- $135 million of Article XI-Q bond proceeds (Other Funds) for the state share of courthouse replacement project costs in Clackamas ($31.5 million), Linn ($15.9 million), and Lane ($87.6 million) counties. This brings total state bonding for the Lane and Linn county projects to $94 million and 32.7 million, respectively. Future requests are anticipated for all three projects.
- $27.8 million of Article XI-Q bond proceeds (Other Funds) for renovation of the Oregon Supreme Court building, including seismic updates, energy efficiency improvements, and various systems and safety code upgrades. This brings the two-biennium total Article XI-Q bond proceeds for this project to $33.8 million. The budget includes $5.3 million General Fund for project costs that cannot be financed with bonds.
- $8.5 million of Article XI-Q bond proceeds (Other Funds) to purchase state-owned furniture and equipment for the new Multnomah County Courthouse, bringing the total costs for state-owned furniture, fixtures, and equipment at the facility to $17.4 million. The budget includes $750,000 General Fund, on a one-time basis, for related OJD moving expenses.
- $6.7 million Other Funds for activities funded from the State Court Facilities and Security Account, including emergency preparedness, court security training, and courthouse capital improvements.
- $2.1 million of Article XI-Q bond proceeds are provided to finance the costs of issuing the bonds for the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF) and capital construction projects.
- $2 million General Fund for planning of a replacement courthouse for Benton County. The funding provided establishes no obligation for the state to provide any additional support for this project.
- $1.1 million General Fund and eight positions (4.50 FTE) were added to establish two new circuit court judgeships, one in Jackson County and one in Marion County, beginning July 1, 2020.
- $1.3 million General Fund to increase judges' annual salary by $5,000 effective July 1, 2020.
- $1.8 million General Fund and nine positions (9.00 FTE) were added to support implementation of SB 24 (2019) and SB 973 (2019) related to supports and services for people with serious mental illness and substance addictions.
- $12.3 million General Fund for Legal Aid services, a 3% increase from the 2017-2019 legislatively approved budget.
- A $5 million General Fund reduction was made to help balance the statewide General Fund budget. These reductions are equivalent to approximately 1.4% of the department's operations budget. The Judicial Department is given flexibility in implementing the reductions, to minimize the impact on judicial operations.

Judicial Compensation

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	72,393,239	80,412,773	85,801,535	87,294,170
Total Funds	**$72,393,239**	**$80,412,773**	**$85,801,535**	**$87,294,170**
Positions	194	196	196	198
FTE	194.00	194.50	196.00	197.00

Program Description

The Judicial Compensation program contains the personal services costs (salary plus other payroll expenses) of the 198 statutory judgeships authorized in Oregon, including 177 circuit court judges (an increase from the current 175, beginning in July 2020), 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, 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 salaries, are set in statute. Since 2015, state law has required that judicial salaries be adjusted on an ongoing basis to match the cost-of-living adjustments awarded to management service employees in the executive branch. Amounts beyond the cost-of-living adjustments require legislative action. In 2016, the Legislature approved a $5,000 salary increase, effective January 1, 2017. In 2017, the Legislature approved a $5,000 salary increase effective July 1, 2018. In 2019, the Legislature approved a $5,000 increase effective July 1, 2020. The salary rates established by the 2016, 2017, and 2019 legislative session actions are shown in the table below.

Statutory Judge Salaries	2017	2018	2019	2020
Chief Justice	$150,572	$157,076	$160,452	$170,412
Supreme Court Justices	$147,560	$154,040	$157,356	$167,232
Court of Appeals Chief Judge	$147,560	$154,040	$157,356	$167,232
Court of Appeals Judges	$144,536	$150,980	$154,224	$164,004
Tax Court Judge	$139,652	$146,048	$149,184	$158,808
Circuit Court Judge	$135,776	$142,136	$145,188	$154,692

In addition to annual salaries, the Judicial Compensation program also finances judges' other payroll expenses (OPE), which are equal to approximately 35% of salary. 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 2019-21 biennium contribution rate for this plan is 27.92% of salary, compared to a 16.39% PERS contribution rate for non-judge employees.

Revenue Sources and Relationships

Statutory judgeships are funded with General Fund.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $87.3 million is $6.9 million (or 8.6%) above the prior biennium level and is 1.7% above the current service level. The Legislature approved two related budget adjustments: one adds

$1.3 million to increase judges' annual salary by $5,000 on July 1, 2020, and the other adds $456,000 General Fund and two positions (1.00 FTE) for two new circuit court judgeships established in HB 2377: one in Jackson County and one in Marion County. The new judgeships are established on July 1, 2020. 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 have been increased by the same percentage 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

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	20,570,480	22,579,063	24,379,678	24,053,363
Other Funds	2,961,408	2,801,960	2,932,629	2,932,629
Total Funds	**$23,531,888**	**$25,381,023**	**$27,312,307**	**$26,985,992**
Positions	103	102	101	101
FTE	101.80	100.80	98.52	98.52

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 ($2.6 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 2019-21 legislatively adopted budget of $26.9 million is $1.6 million (or 6.3%) above the prior biennium level and is 1.2% below the current service level. One vacant position was eliminated. The $0.3 million of General Fund reduction is unspecified to allow the Judicial Department flexibility to implement it in a manner to minimize its impact on judicial operations.

Trial Courts

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	211,368,152	223,466,398	247,579,369	244,830,652
Other Funds	6,720,457	9,099,771	5,221,203	9,862,734
Federal Funds	331,911	--	--	--
Total Funds	**$218,420,520**	**$232,566,169**	**$252,800,572**	**$254,693,386**
Positions	1,373	1,390	1,391	1,422
FTE	1,2461.11	1,272,72	1,282.16	1,310.66

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 Portland 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 ($4.6 million).

Budget Environment

In calendar year 2017, caseloads totaled 516,055 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 21.3% 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, civil commitments, and probate.

Case-Type by Calendar Year	1990 to 2010 Average	2000 to 2010 Average	2005 to 2010 Average	2011 Caseload	2013 Caseload	2015 Caseload	2017 Caseload
Civil	76,060	84,686	93,874	92,449	95,191	74,070	83,166
Small Claims	64,683	71,232	76,118	73,673	70,259	67,932	55,902
Domestic Relations	51,501	47,699	46,088	47,919	43,898	41,735	43,699
Felony	33,481	35,304	32,364	31,086	32,464	32,407	31,738
Misdemeanor	65,254	64,156	62,960	59,589	53,029	50,335	49,100
Violations	285,795	276,816	249,869	214,654	215,080	205,511	222,341
Juvenile	18,971	17,853	16,845	14,013	11,783	11,430	10,223
Civil Commitments	6,974	8,236	8,674	8,871	9,582	8,512	7,710
Probate	10,136	10,029	10,006	10,347	10,642	11,312	12,176
Total	**612,809**	**615,982**	**596,797**	**552,601**	**541,928**	**503,244**	**516,055**

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 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.

<u>Legislatively Adopted Budget</u>

The 2019-21 legislatively adopted budget of $254.7 million is $22.1 million (or 9.5%) above the prior biennium level and is $1.9 million (or 0.75%) above the current service level. Fifteen positions (12.50 FTE) were added. General Fund support is reduced $2.7 million (or 1.1%) from the current service level. The net General Fund support represents the combination of $5.1 million in reductions to existing program support, partially offset by $2.4 million of supplemental funding to implement new programs and for new judicial support positions.

- General Fund balance adjustment – Includes a $3.3 million reduction, unspecified, to allow the Judicial Department the flexibility to implement it in a manner to minimize its overall impact on court operations.
- Standard statewide adjustments – $1.1 million General Fund for the Trial Courts portion related to PERS actual rates versus planned rates.

Funding enhancements in the budget include:

- New Judgeships (HB 2377) – $602,624 General Fund and six positions (3.50 FTE) to fund establishment of two new circuit court judgeships established in HB 2377, one in Jackson County and one in Marion County. The new judgeships are established on July 1, 2020. 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.
- Behavioral Health Resources – $1 million General Fund, and six positions (6.00 FTE) to provide circuit courts additional resources to manage behavioral health dockets, coordinate with county behavioral health and treatment resources, and provide additional tracking and data input/reporting associated with Aid and Assist cases for individuals who may have significant behavioral health issues when interacting with the courts.

Administration and Central Support

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	61,671,744	59,901,624	67,365,811	71,932,444
Other Funds	81,661,109	21,988,046	3,134,264	3,924,586
Federal Funds	844,103	1,344,289	1,357,254	1,355,846
Total Funds	**$144,176,956**	**$83,233,959**	**$71,857,329**	**$77,212,876**
Positions	186	185	154	157
FTE	176.36	181.95	151.43	154.43

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
- Legal Counsel
- Human Resource Services
- Office of Education, Training, and Outreach
- Executive Services
- Enterprise Technology Services
- Appellate Court Services
- Business and Fiscal Services

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 primarily funded with General Fund, but includes the following Other Funds and Federal Funds revenue sources:

- Article XI-Q bond proceeds to cover bond cost of issuance ($1.2 million)
- Grant funds supporting two permanent Other Funds positions for Relief Assistance Officers for Lane County ($0.5 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.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $77.2 million is $6 million (or 7.2%) below the prior biennium level, but this decrease is largely an artifact of transferring funding for staff paid out of the State Technology Fund into a different program budget for improved transparency. A more accurate comparison is that the budget is a 7.5% increase over the current service level. A list of program reductions and enhancements includes the following:

- General Fund balance adjustment – $0.9 million General Fund reduction, unspecified, to allow the Judicial Department the flexibility to implement it in a manner to minimize its overall impact on court operations.
- Standard statewide adjustments – $1.4 million General Fund reduction for the program's portion of standard statewide adjustments for state government service charges and Attorney General charges.
- Multnomah County Courthouse – $750,000 General Fund increase for agency moving expenses associated with the Multnomah County courthouse.
- Supreme Court Building Preservation and Seismic Retrofit – $5.3 million General Fund and $0.4 million Other Funds for non-bondable costs associated with the renovation of the Supreme Court building.
- Bond Cost of Issuance – $410,000 for bond issuance costs associated with Article XI-Q bond sales for the Supreme Court building and Multnomah County courthouse fixtures and equipment.

Mandated Payments

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,963,277	15,948,377	16,606,161	16,588,495
Other Funds	661,742	663,947	689,109	688,909
Total Funds	**$16,625,019**	**$16,612,324**	**$17,295,270**	**$17,277,404**
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%) 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 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 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 55% of the budget supports interpreter services, 44% supports jury payments, with less than 1% supporting ADA compliance and arbitration expenses.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $17.3 million is $0.7 million General Fund (or 4.0%) above the prior biennium level. Funding is $17,866 General Fund below the current service level, which is the program's portion of standard statewide adjustments. 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.

Third Party Collections

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	13,735,137	15,548,479	15,312,377	15,312,377
Total Funds	**$13,735,137**	**$15,548,479**	**$15,312,377**	**$15,312,377**

Program Description

The purpose of the program is to collect amounts owed to the state that are subject to collection by the Judicial Branch. While 91% of cases are paid in full, approximately 9% of cases require collection efforts by the courts, through third party collection firms, or through the Department of Revenue. 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 that are passed on to the General Fund, 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 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 collection. The Department also works with DOR to intercept state tax refunds, including kicker checks.

Revenue Sources and Relationships

During the 2019-21 biennium, OJD will generate an estimated $285.7 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. Third party collection activities will account for approximately 28% of this revenue and most of the revenues collected will be transferred directly to either the General Fund, the Criminal Fine Account, or to cities and counties. This program is funded 100% by the General Fund.

Legislatively Adopted Budget

Generally, the 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 and for bank credit card charges. The appropriation funds payments to the Department of Revenue and private collection firms for fees that are paid as a percentage of the amount collected, plus bank fees and Treasury charges.

The Oregon Judicial Department projects third-party collection costs of $19.2 million in 2019-21, a 6.1% increase over the prior biennium level. The collections on delinquent debt by the third-party debt collectors are forecast to total approximately $80.3 million during the 2019-21 biennium.

State Court Facilities and Security Account

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	11,044,706	6,439,866	6,716,018	6,711,710
Total Funds	**$11,044,706**	**$6,439,866**	**$6,716,018**	**$6,711,710**
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 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. Counties fund security of their court facilities from a combination of monies in those accounts and other county revenue sources.

Revenue Sources and Relationships

The SCFSA is funded with CFA revenues. In the 2011-13 biennium, the account received an initial allocation of funding from the CFA 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 million in the 2015-17 biennium.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $6.7 million is $0.3 million (or 4.2%) above the prior biennium level. The budget is $4,308 or 0.1% below the current service level, which is related to a statewide PERS rate adjustment. The SCFSA is expected to have an ending balance equal to approximately one month of expenditures.

Expenditures are entirely supported by two CFA allocations: one for OJD Security and Emergency Preparedness Office ($3,784,490) and the other for Distributions to County Local Court Security Accounts ($2,931,528).

External Pass-Throughs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	16,042,390	15,840,390	15,196,725	28,995,492
Other Funds	11,900,000	11,900,000	11,900,000	--
Total Funds	**$27,942,390**	**$27,740,390**	**$27,096,725**	**$28,995,492**

Program Description

In the 2011-13 budget, General Fund was 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. In the 2019 legislative session, the Legislature changed the funding mechanism for Legal Aid, so going forward it will be handled as a direct General Fund appropriation rather than a transfer of court fee revenues.

Revenue Sources and Relationship

The External Pass-Through program is funded with General Fund. 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 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 after the dedicated fees were eliminated.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $29 million is $1.3 million (or 4.5%) above the prior biennium level and $1.9 million General Fund (or 7.0%) 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 a General Fund budget reduction of $458,000. It includes a shift of $11.9 million from Other Funds to General Fund for the Legal Aid program, as well as an inflation adjustment of $357,000 General Fund for Legal Aid. Finally, it includes $2 million General Fund for a one-time grant to Benton County for planning costs associated with a project to replace the county's courthouse.

eCourt Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,626,080	2,956,358	2,432,622	3,432,622
Other Funds	16,519,224	--	19,480,865	19,378,850
Total Funds	**$18,145,304**	**$2,956,358**	**$21,913,487**	**$22,811,472**
Positions	38	--	30	30
FTE	22.24	--	30.00	30.00

Program Description
The Oregon eCourt Program provides funding for the Oregon Judicial Case Information Network (OJCIN), which is the Department's electronic case management system. Specifically, the program supports public access to OJCIN, technology support services, electronic case filing, system maintenance, and limited equipment replacement. In 2017, the Department completed a multi-year, $91 million project to modernize the system. Since that time, focus has shifted from implementation of the new system to its support and ongoing maintenance, as well as accessibility for system users.

For the 2019-21 biennium, the State Court Technology Fund (SCTF) was transitioned from other parts of the budget into the eCourt Program. This is to consolidate related funding and provide improved budget transparency. Statute requires the SCTF be used to:
- Develop, maintain, and support state court electronic applications, services, and system
- Provide access to and use of those applications, services, and systems
- Provide electronic service and filing services

Revenue Sources and Relationships
The eCourt Program is funded with a combination of General Fund and Other Funds. The General Fund supports system maintenance and equipment and software replacement. Other Funds is comprised of filing fees, user fees, transaction fees, and an allocation from the Criminal Fine Account.

- Filing fees are statutorily required payments associated with case filing in Oregon courts. A portion of filing fee revenues (8.85%) is deposited into the SCTF. In the 2019-21 biennium, SCTF revenue is expected to be $6 million.
- User fees are charges for electronic access through a subscription to court information by external users. While the public has free access to the electronic case register, a subscription allows remote access to case documents. For the 2019-21 biennium, user fee revenue is expected to be $6.5 million.
- Transaction fees charged for online use of credit and debit cards are expected to generate $0.5 million.
- The 2019-21 allocation from the Criminal Fines Account is $3.9 million. In 2017, the Legislature increased presumptive fines by $5 to support court technology costs.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget adds staff costs of $19.5 million and 30 positions (30.00 FTE) to the program budget. The positions were previously budgeted in Administration and Central Support. The Legislature provided a total of $3.4 million to address increased system maintenance and service agreement costs in 2019-21 comprised of $1 million General Fund and $2.4 million Other Funds; however, the revenue bill (HB 2241) intended to support the $2.4 million Other Funds expenditure limitation did not pass.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	18,508,519	17,871,089	30,968,960	27,383,694
Other Funds	--	--	--	1,300,000
Total Funds	**$18,508,519**	**$17,871,089**	**$30,968,960**	**$28,683,694**

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 which 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 the proceeds as Other Funds and are included 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. Debt service related to the Oregon eCourt Program will be fully retired in Spring 2022.

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 2019-21 legislatively adopted budget includes $27.4 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 53.2% increase from the prior biennium level results from bonds authorized in 2017-19 and sold in the Spring of 2019.

Although $171.3 million of new Article XI-Q bonds are authorized in the 2019-21 biennium budget for OJD capital construction and county courthouse projects, no debt service costs need to be paid this biennium because the bonds will not be issued until Spring 2021. Debt service costs on the new bonds are estimated to be approximately $21 million General Fund in the 2021-23 biennium.

Oregon Courthouse Capital Construction and Improvement Fund

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	--	--	136,695,000
Total Funds	**--**	**--**	**--**	**$136,695,000**

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 2013 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 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 2017-19 biennium, the OCCCIF has provided $134 million of Article XI-Q bond proceeds for the Multnomah County Courthouse replacement project, $6.5 million for a new Jefferson County Courthouse, and $6.4 million for the Lane County Courthouse replacement project. An equal amount of county matching funds was authorized for each project. The support provided allowed completion of the Jefferson County project and will allow for completion of the Multnomah County Courthouse in 2020. The Lane County Courthouse project is expected to require a total of $94.9 million of bond support.

Revenue Sources and Relationships
Other Funds are provided from proceeds from 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 OCCCIF that are then available to pay project expenses.

Legislatively Adopted Budget
The 2019-21 biennium legislatively adopted budget totals $136.7 million Other Funds for the OCCCIF, including $68.4 million of Article XI-Q bond proceeds and $68.3 million of county matching funds. Bonds are approved for the following projects, in the following amounts:

- Clackamas County Courthouse – $31.9 million. This is the first bond sale for this project. An additional $63 million is expected to be requested in subsequent biennia to complete the courthouse replacement project.
- Lane County Courthouse – $88.5 million. This brings the total amount of state bond proceeds provided for this project to $94.9 million.
- Linn County – $16.2 million. This is a one-time request; however, it is anticipated there will be future expenses for fixtures, furniture, and equipment.

The bonds will not be issued until Spring 2021, and debt service costs will not be incurred in the 2019-21 biennium. Beginning in the 2021-23 biennium, however, debt service on the bonds is expected to total approximately $16.5 million General Fund per biennium.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
Other Funds	--	14,900,000	--	36,320,000
Total Funds	**--**	**$14,900,000**	**--**	**$36,320,000**

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 2013-15, $4.4 million of bond proceeds were provided for a deferred maintenance project at the Supreme Court Building. In 2019, an additional $6 million in bonds was sold for the project for a total of $10.4 million.

Legislatively Adopted Budget
The 2019-21 biennium budget includes $36.3 million of Article XI-Q bond proceeds (Other Funds) for two capital construction projects. These include $8.5 million for state-owned equipment and furnishings in the new Multnomah County Courthouse, and $27.8 million to renovate and provide seismic updates for the Oregon Supreme Court Building. The Supreme Court Building restoration project is now forecast to require up to $12 million in bond proceeds for the 2021-23 biennium. There are no debt service costs due on the Article XI-Q bonds issued for these projects during the 2019-21 biennium, but debt service costs are projected to total approximately $4.5 million General Fund per biennium beginning in 2021-23.

COMMISSION ON JUDICIAL FITNESS AND DISABILITY

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	434,708	252,710	258,880	274,890
Total Funds	**$434,708**	**$252,710**	**$258,880**	**$274,890**
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, circuit court judges, appellate court judges, temporary or pro-tem judges, senior or “Plan B” semi-retired judges, judicial referees, and the Tax Court judge. In total, the Commission’s current jurisdiction extends to approximately 400 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 proceedings 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 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 a small 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. In the 2015-17 biennium the Legislature added $224,752 General Fund for extraordinary expenses related to two cases.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $274,890 General Fund is $22,180 (or 8.8%) above the prior biennium funding level and is $16,010 (or 6.2%) above the current service level due primarily to increases in Services and Supplies. Of the 2019-21 total, $255,899 is appropriated for administration (i.e., normal expenses), and $18,991 is appropriated for extraordinary expenses. The budget includes one position (0.50 FTE). Funding was increased by $16,000 from the current service level to pay for compensation adjustments made at the end of the 2017-19 biennium and to pay for additional administrative staff time to support the work of the Commission.

PUBLIC DEFENSE SERVICES COMMISSION

Analyst: Jolivette

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	285,082,822	305,425,556	344,173,541	342,319,238
Other Funds	3,234,718	4,967,943	4,170,527	4,039,068
Total Funds	**$288,317,540**	**$310,393,499**	**$348,344,068**	**$346,358,306**
Positions	77	77	76	81
FTE	76.23	76.23	75.80	80.80

<u>Overview</u>

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 – $22.6 million, 56.80 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 – $315.7 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 – $8.1 million, 24.00 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 -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.

"Non-routine" expenses which are primarily for 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.

Budget Environment

- Caseloads – The state has a constitutional obligation to provide counsel for eligible persons and to provide for timely adjudication. If insufficient funding for public defense results in violation of these constitutional provisions, the court must dismiss the case and release the person. The Commission has no legal authority to control the number of public defense cases it receives, nor any 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 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, 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 2017-18 caseload count of 175,996 was up about 3.0% 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%
Fiscal Year 2016-17	175,450	0.9%
Fiscal Year 2017-18	175,996	0.3%

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 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 $29.9 million in the 2017-19 biennium and are forecast to total $30.1 million in 2019-21.

- 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 promote cost-effective delivery systems unique to each locale that incorporate 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. 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 98.8% of the PDSC budget, with the remaining 1.2% financed by Other Funds. The sole source of Other Funds 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 $4.8 million in the 2019-21 biennium. These revenues are dedicated to support of the public defense system.

PDSC will transfer $3.9 million of ACP revenues back to the Judicial Department to support program Verification Specialist positions in the courts. PDSC, however, supports compensation of 3.00 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.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $346.4 million is $35.9 million (or 11.6%) above the prior biennium. This includes a $3.3 million, or 17.4%, General Fund increase for the Appellate Division; a $31.6 million, or 11.2%, General Fund increase for the Professional Services Account; and, a $1.9 million, or 37%, General Fund increase for the Contract and Business Services Division. There is an increase of 4 positions (4.57 FTE) compared to the 2017-19 legislatively approved budget.

Appellate Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,438,639	19,207,111	22,034,633	22,553,674
Total Funds	**$15,438,639**	**$19,207,111**	**$22,034,633**	**$22,553,674**
Positions	58	58	57	57
FTE	57.23	57.23	56.80	56.80

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 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 3,767 cases in 2015-175. 2017-19 biennium caseloads were projected to total approximately 3,800. 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. Costs of the 2017 salary increases totaled approximately $792,000 in the 2017-19 biennium.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $22.6 million is $3.3 million (or 17.4%) above the prior biennium level and is 2.4% above the current service level. Two budget adjustments were included in the budget:

- Appellate Division Employee Compensation – $603,237 General Fund was added to address compensation parity between Appellate Division attorneys and Department of Justice attorneys.
- Standard Statewide Adjustments – $84,196 General Fund was removed for the program's portion of standard statewide adjustments for state government service charges and Attorney General charges.

Professional Services Account

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	265,642,630	280,941,239	316,304,337	312,520,622
Other Funds	2,684,455	4,244,845	3,328,276	3,200,000
Total Funds	**$268,327,085**	**$285,186,084**	**$319,632,613**	**$315,720,622**

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; and other limited civil proceedings. The Constitutions of both the United States and Oregon guarantee the right to legal representation, at state expense, to financially eligible persons facing criminal prosecutions. The program is also responsible for the cost of transcripts and appellate legal representation for cases not represented by the Appellate Division.

The PSA 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 counts 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 2017-18 caseload count of 173,890 was up approximately 3% over the 2003-04 count.

The largest category of case type is Misdemeanors and Misdemeanor Probation Violations, which represents 36% of total trial-level, non-death penalty caseload. This is followed by Dependency and Juvenile Delinquency at 34%; Felonies and Felony Probation Violations at 30%; and all others at less than 1%. 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 11% of total trial-level, non-death penalty costs; Felonies and Felony Probation Violations, 56% of total costs; Misdemeanors and Misdemeanor Probation Violations, 28% of total costs; and all other, 5% 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 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. Recently, caseload counts for the more expensive case types have been growing, putting additional strain on the budget.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $315.7 million is $30.5 million (or 10.7%) above the prior biennium level, but is 1.2% below the current service level.

Funding enhancements and reductions include:

- Current Service Level Adjustment – $28.5 million General Fund was added for inflation and caseload, including $11.5 million for services and supplies inflation, $5.5 million for PDSC contractor personal services inflation, and $11.5 million for caseload.
- Parent Child Representation Program – $3.2 million General Fund was added to expand the Parent Child Representation Program to Multnomah County effective July 1, 2020. Multnomah will be the sixth county in which the program is being implemented. The program is currently offered in Columbia, Coos, Lincoln, Linn, and Yamhill counties.
- Professional Services Account Funding Reductions – $7 million General Fund was removed from the budget to help balance the statewide General Fund budget within available resources. This reduction represents about 40% of the funding added in the 2019-21 budget for inflation.

Additionally, the Legislature approved a special purpose appropriation in the amount of $20 million to address caseload and contract model concerns raised in a recent evaluation of indigent defense contracting by the agency. Specifically, the Legislature directed the agency to implement an improved contract model that is not based on a flat-fee per case and implement strategies aimed at reducing public defender caseloads at the trial court level.

Contract and Business Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,001,553	5,277,206	5,834,571	7,244,942
Other Funds	550,263	723,098	842,251	839,068
Total Funds	**$4,551,816**	**$6,000,304**	**$6,676,822**	**$8,084,010**
Positions	19	19	19	24
FTE	19.00	19.00	19.00	24.00

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, Coos, Lincoln, and Columbia counties to expand representation services in juvenile dependency cases.

Revenue Sources and Relationships
The program is mostly supported by the General Fund, with a small portion of Other Funds support. The agency is budgeted to receive approximately $4.8 million Other Funds during the 2019-21 biennium from an application fee of $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 (3.00 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 2019-21 biennium is $22,608, which is less than 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 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 $315.7 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 2019-21 legislatively adopted budget of $8.1 million is $2.1 million (or 34.7%) above the prior biennium level and is 21.1% above the current service level. The following budget adjustments were made:

- New Office Space – $322,000 General Fund to lease an additional 6,500 square feet of office space in Salem.
- Financial Management – $300,000 General Fund for IT contract services related to replacement of the existing outdated financial management system, and a $263,810 General Fund increase to support two limited-duration Accounting Technician positions to improve payment processing timelines.
- Quality Assurance Activities – $261,678 General Fund and two positions (2.00 FTE) to improve quality assurance activities by the agency. The Legislature directed the Commission to work collaboratively with the Oregon Judicial Department and other stakeholders to identify and begin to implement system changes to improve oversight of public defense services contracts, specifically for indigent defense.
- Standard Statewide Adjustments – $20,832 General Fund and $3,158 Other Funds was removed for the program's portion of standard statewide adjustments for state service charges and attorney general charges.

The Legislature approved a $2 million special purpose appropriation to the Emergency Fund for acquisition of a new financial/case management system and directed the agency to follow the Stage Gate review process.

ECONOMIC DEVELOPMENT

PROGRAM AREA

BUSINESS DEVELOPMENT DEPARTMENT, OREGON

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	14,811,095	54,568,667	61,822,937	73,532,542
Lottery Funds	100,496,117	117,789,412	119,156,968	127,365,166
Other Funds	62,403,430	383,574,013	407,723,679	555,318,109
Other Funds (NL)	125,309,446	239,123,192	245,544,035	280,544,035
Federal Funds	25,924,065	41,457,527	43,049,222	43,094,384
Total Funds	**$328,944,153**	**$836,512,811**	**$877,296,841**	**$1,079,854,236**
Positions	139	136	136	140
FTE	135.34	134.50	134.50	138.63

Overview

The mission of the Oregon Business Development Department (OBDD) is to invest in Oregon businesses, communities, and people to promote a globally competitive, diverse, and inclusive economy. OBDD is responsible for the state's economic development strategy, provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities, including the Seismic Rehabilitation Grant Program. The Department is overseen by a nine-member Commission, with seven members appointed by the Governor and confirmed by the Senate and two nonvoting legislative appointees. General Fund, Lottery Funds, Federal Funds, and Other Funds support OBDD's business retention, expansion, and recruitment; export promotion and international trade; innovation and entrepreneurship; community development and infrastructure finance; and arts and cultural programs. Proceeds from the issuance of lottery revenue bonds, general obligation bonds, and Oregon Bond Bank revenue bonds make up a significant portion of Other Funds revenues that are used to finance community infrastructure grants and loans.

The Department has six budgeted program areas:

- Operations – Includes the Director's Office and central agency administrative services that support both the business development (Business, Innovation, Trade) and the community development (Infrastructure) programs. The Operations Division includes 26% of the agency's employees and is financed primarily with Lottery Funds. Other Funds revenues generated from infrastructure and business finance programs and federal grant administration funds also support a portion of the budget.
- Business, Innovation, Trade – Includes the staff and resources used by the Department to support economic strategies and policy development, as well as provide support services, grants, and loans to assist businesses with job retention and creation, promote trade and innovation, and incentivize the production of solar power. This program area operates a variety of programs with multiple funding sources. Major lottery funded programs include the Oregon Innovation Council (Oregon InC) Innovation Plan, Strategic Reserve Fund (SRF), and Oregon Manufacturing and Innovation Center (OMIC) research and operations support. The Business, Innovation, and Trade program area is the agency's largest in terms of staffing, with 42% of the agency's employees, and is primarily financed with Lottery Funds. Other Funds generated from loan principal and interest repayments, investment earnings, and loan and service fees support business finance direct loan and loan guarantee programs. The Certification Office for Business Inclusion and Diversity (COBID) is funded with Other Funds from state agency assessments and revenue from the Oregon Department of Transportation (ODOT). General Fund supports 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. In the 2013 legislative session, the Seismic Rehabilitation Grant Program was transferred from the Oregon Military Department to the OBDD Infrastructure program. Infrastructure also

houses the Brownfields, Industrial Lands, and Broadband programs. Special payments (loans and grants) to local governments, the nine federally recognized tribes, and other entities represent over 90% of budgeted expenditures in this program area. Expenditures also include the Department's associated costs to administer the community development programs and debt service on revenue bonds the state has issued to finance community infrastructure loans. Infrastructure operations and programs are primarily funded with Other Funds revenues generated from revolving loan funds, including loan principal and interest repayments and investment earnings, as well as lottery revenue and general obligation bond proceeds. Federal Funds are received for the Community Development Block Grant and Brownfields programs. The program area includes 24% of the agency's employees.

- Oregon Arts Commission and the Oregon Cultural Trust – Foster the arts and cultural development in Oregon. The Arts 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 arts programs in Oregon; providing services to arts organizations, individual artists, and communities; and managing Oregon's Percent for Art Program. The program also operates the Trust for Cultural Development (Oregon Cultural Trust), which was established in 2001 to support the arts and culture of the state. This program area houses 7% of the agency's employees and all operating expenses relating to the Arts Commission and Cultural Trust, including personal services expenditures and services and supplies expenditures, as well as funds awarded to arts and cultural nonprofit organizations and individual artists. 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 outstanding lottery revenue bonds, Article XI-Q general obligation bonds, and Article XI-M and XI-N general obligation bonds. Debt service is funded almost entirely with Lottery Funds and General Fund, although Other Funds generated from bond interest earnings and excess proceeds are sometimes applied to pay debt service.

Budget Environment

The workload of the agency is driven by Oregon's economic and community development needs. This includes supporting Oregon businesses and assisting communities to build and maintain infrastructure, such as clean water and wastewater systems, seismic rehabilitation for schools, and port facilities. OBDD programs and services help businesses grow, support the retention and creation of jobs, develop and increase the competitiveness of Oregon industries, and align infrastructure investments with economic growth. The agency's budget has expanded significantly over the last several biennia, as the Legislature 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. Oregon's economy has recovered and continues to see gross domestic product (GDP), employment, and personal income growth. However, economic growth has not been experienced equally throughout the state or by all segments of the population. OBDD's economic strategy considers regional economic challenges and focuses on creating rural economic stability and providing economic opportunity for underrepresented populations. Strategic economic development priorities also include innovating the economy by expanding research and development capacity and growing small and medium-sized businesses and middle-wage jobs.

Over 50% 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 loans and grants for economic development, community development, and seismic rehabilitation projects. State support for debt service totals $104.5 million in the 2019-21 budget and represents a $16.1 million (or 18.3%) increase over the 2017-19 legislatively approved budget. Since the 2015-17 biennium, General Fund debt service has increased over 400% due to level of bonding authorized for the Seismic Rehabilitation Grant Program ($450 million between 2015-17 and 2019-21).

The Department began a strategic review in December 2016, with goals of enhancing service delivery and operational efficiency and flexibility. This review resulted in OBDD revising its organizational structure into four divisions: Economic Development; Operations and Finance; Equity, Strategies and Communications; and Arts and Culture. Two of the principal outcomes of the new structure include consolidating the previous Business, Innovation, and Trade and Infrastructure Divisions into a single Economic Development Division, combining the operation of business development and infrastructure finance programs into one agency unit; and establishing twelve Regional Development Officer and six Regional Project Manager positions to support program delivery through the state. The Legislature approved the budgetary actions necessary to implement the reorganization plan in the 2019-21 adopted budget. Positions were reclassified and transferred between the Operations, Business, Innovation, and Trade, and Infrastructure budgeted divisions to align staff and resources with the agency's organizational structure.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon Business Development Department totals $1,079.9 million, a $243.3 million (or 29.1%) increase over the prior biennium. The increase is the result of expanded support for bond-funded projects and programs, additional General Fund for debt service costs, and increased General Fund and Lottery Funds support for agency programs. These increases are partially offset by reductions in Lottery Funds debt service and Oregon InC program support.

General Fund and Lottery Funds support in the 2019-21 budget totals $200.9 million is $28.5 million (or 16.6%) more than the 2017-19 legislatively approved budget. The increase is primarily due to a new $10 million General Fund investment in the University Innovation Research Fund (UIRF) and debt service requirements on outstanding and authorized general obligation bonds. Other Funds expenditures increased $213.2 million (or 34.2%) over the 2017-19 budget as a result of limitation provided for new bond authorizations and for bond proceeds carried forward from the prior biennium budget. A significant portion of bonds approved in the 2017-19 biennium were not issued until spring 2019, so many of the expenditures financed by those bonds are included for disbursement in the 2019-21 budget. The approved budget provides $226.4 million of net proceeds from 2019-21 bond sales, including $120 million of general obligation bonds for the seismic program and $106.4 million of lottery revenue bonds for infrastructure and cultural projects, which represents an increase of 25.5% over the $180.4 million of net bond proceeds approved in the 2017-19 biennium.

Most Lottery Funds expenditures, excluding debt service payments for lottery revenue bonds, are in the Business, Innovation, and Trade (business development) program area, with a lesser amount supporting the Operations and Infrastructure program areas. The Infrastructure (community development) program area is primarily 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 used for ongoing support of the Arts Commission, debt service on general obligation bonds, and the Solar Incentivization Program in the Business, Innovation, and Trade Division.

Operations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Lottery Funds	7,230,709	7,242,756	7,599,017	8,773,826
Other Funds	1,697,342	1,891,471	2,018,889	2,838,201
Federal Funds	73,168	204,973	223,166	222,347
Total Funds	**$9,001,219**	**$9,339,200**	**$9,841,072**	**$11,834,374**
Positions	32	32	32	37
FTE	32.00	32.00	32.00	36.88

Program Description
The Operations program area includes the Director's Office, which provides leadership, governmental relations, and communications for the agency and the Operations Division, which provides Fiscal and Budget, Employee Services, Technology Services, Contract Services, and Facilities administrative functions to the other program areas. This separate Operations program area was established with the reorganization of the Department in 2009 to support the Business, Innovation, and Trade, Infrastructure, and Arts divisions.

Revenue Sources and Relationships
Operations is primarily financed with Lottery Funds (74%). Other Funds revenues of $2.5 million are transferred from the Business, Innovation, and Trade and Infrastructure divisions to cover a portion of their Other Funded programs' administrative costs. Other Funds transferred from the Business, Innovation, and Trade program area include interest earnings and other revenues generated from business finance loan programs and a lesser amount from the Certification Office for Business Inclusion and Diversity (COBID) state agency assessment revenue. Infrastructure Other Funds revenues are generated from revolving loan funds, including loan repayments and interest earnings on balances. Federal Funds are received from the U.S. Department of Housing and Urban Development (HUD) for the Community Development Block Grant program financial administration.

Budget Environment
Community and regional needs and the needs of businesses and industry drive the Department's programs and services. External forces, including changes in Oregon's economy, also have an impact on the agency. The Operations Division workload is directly connected to the number and complexity of the agency's economic development programs. Workload is also affected by changes in organization and staffing. The addition of new programs, such as the Safe Drinking Water Revolving Loan Program and the Seismic Rehabilitation Grant Program, or expansion of existing programs, increases administrative services workload and, correspondingly, the Operations budget. Personal services make up 76% of the costs to support operations functions.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $11.8 million for Operations is a $2.5 million (or 26.7%) increase over the prior biennium. The increase is attributable to the transfer of positions to the Operations program as part of the agency's budget alignment, as well as information technology and internal auditing investments. Operations expenditure limitation increased by $437,112 Lottery Funds and $689,983 Other Funds due to the transfer of four positions from the Business, Innovation, and Trade (2.00 FTE) and the Infrastructure (2.00 FTE) divisions to consolidate rulemaking and contracting functions, as well as the upward reclassification of four additional positions to accomodate staff duties. Additionally, the following packages were approved through a combination of Lottery Funds (85%) and Other Funds (15%) to increase capacity in Operations to meet the agency's needs:

- $700,000 to replace the agency's legacy financial portfolio management system with an application that will allow continued management of financial awards, as well as additional functionality for tracking tax incentives and meeting transparency and reporting requirements. The approved amount includes $550,000 for one-time project management and software replacement costs and $150,000 for ongoing annual software licensing costs.
- $206,294 to establish an Internal Auditor 3 position (0.88 FTE), including $194,794 for position costs and $11,500 for associated services and supplies expenditures.

Business, Innovation, Trade

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	156,906	8,559,846	3,773,331	13,438,798
Lottery Funds	46,457,012	57,016,079	56,546,647	61,553,892
Other Funds	8,432,108	18,338,919	21,180,051	32,052,272
Other Funds (NL)	5,589,721	12,483,098	12,976,785	12,976,785
Federal Funds	1,773,487	5,568,116	5,776,240	5,980,869
Total Funds	**$62,409,234**	**$101,966,058**	**$100,253,054**	**$126,002,616**
Positions	58	56	56	59
FTE	55.34	55.00	55.00	59.00

Program Description

The Business, Innovation, and Trade (BIT) program area houses the Department's business development programs that support business retention, expansion, and recruitment; international trade; and initiatives to increase innovation in the Oregon economy and improve the state's economic competitiveness. The Oregon Innovation Council (Oregon InC) Innovation Plan, Strategic Reserve Fund (SRF), and Oregon Manufacturing Innovation Center (OMIC) are the main programs in terms of Lottery Funds support. Lottery Funds also support the Industry Competitiveness Fund (ICF), Oregon Growth Fund (OGF), and small business services through the Small Business Development Centers (SBDCs) and Government Contract Assistance Program (GCAP). Other BIT programs include the Certification Office for Business Inclusion and Diversity (COBID), business finance direct loan and loan guarantee programs, and Solar Development Incentive program. BIT was established as a budgeted division in the reorganization of the Department in 2009. In the 2015-17 biennium, the Industrial Lands, Broadband, and Brownfields programs were transferred from BIT to the Infrastructure program area.

Revenue Sources and Relationships

Revenues for the 2019-21 biennium include General Fund, Other Funds, and Federal Funds, but the program area is primarily financed by Lottery Funds allocated to support business development and innovation programs. Other Funds revenues of $8.4 million generated through loan principal and interest repayments, royalties, investment earnings on revolving loan and loan guarantee fund balances, and loan and service fees support business finance direct loan and loan guarantee programs. COBID is funded with Other Funds from state agency assessments ($1.9 million) and revenue transferred from ODOT ($1.6 million). General Fund is appropriated for the Solar Incentivization Program and the new University Innovation Research Fund (UIRF). 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, and Trade Division includes 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 Great 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 InC Innovation Plan, which was expanded from $7 million Lottery Funds in the 2005-07 biennium to $28.2 million in 2007-09. Oregon InC support was reduced to $17.9 million in 2015-17; but was approved as part of the base budget beginning in 2017-19.

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 through additional investments in existing programs and the addition of new programs, with the total BIT budget now exceeding $125 million. BIT programs and resources are utilized to implement the agency's economic development strategy, including growing the Oregon economy through investments in innovation and research and development, focusing on small and medium-sized business growth, building economic development capacity in rural communities, and providing economic opportunity for underrepresented populations.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $126 million total funds represents a 23.6% increase from the 2017-19 legislatively approved budget. General Fund and Lottery Funds support of $75 million is a $9.4 million (or 14.4%) increase over the prior biennium level. The increased support for BIT programs is net of the removal of one-time funding in the prior biennium that was phased-out during development of the 2019-21 budget and specified General Fund and Lottery Funds reductions. Phase-outs included $5 million General Fund for a one-time deposit in the Eastern Oregon Border Economic Development Board Fund; $3 million Lottery Funds for one-time program support; and $3 million Other Funds for OMIC operations and research. The removal of General Fund for the Eastern Oregon Border Economic Development Board Fund is partially offset by a $4.5 million increase in Other Funds limitation to expend the balance of the Fund in the 2019-21 biennium. Additionally, the Legislature approved the reductions to the following programs:

- Oregon InC – Lottery Funds support was reduced by $1.6 million, resulting in a total of $17.25 million authorized for Oregon InC initiatives, an 8.5% decrease from current service level. A budget note also directed the Department to evaluate and report back to the Emergency Board on the feasibility and impact of eliminating ongoing state support for the three Signature Research Centers: ONAMI, OTRADI, and VertueLab (formerly Oregon BEST).
- Oregon Regional Accelerator Innovation Network (RAIN) – Lottery Funds expenditure limitation was reduced by $519,000 to eliminate funding for Oregon RAIN.
- Solar Development Incentive – General Fund was reduced by $332,875 to adjust the budget to forecasted spending levels.

Enhancements approved in the budget include:

- University Innovation and Research Fund – $10 million General Fund was approved on a one-time basis for deposit in the new University Innovation Research Fund (UIRF) established in HB 2377 (2019). Other Funds limitation of $10 million was also established to accommodate distribution of monies from the UIRF. The UIRF will support grants to public universities and the Oregon Health and Science University to match competitive federal research awards.
- Oregon Manufacturing Innovation Center – Lottery Funds support for 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, was increased by $5 million, bringing ongoing OMIC support in the agency's budget to $8.7 million.
- Strategic Reserve Fund – $2 million was added to the Strategic Reserve Fund (SRF), bringing ongoing Lottery Funds support for new projects to $9 million and total Lottery and Other Funds combined support to $11.1 million. An additional $3.7 million Lottery Funds limitation is also included to expend the estimated beginning balance of SRF project awards. Other Funds revenues consist of Other Fund beginning balances accumulated from loan repayments.
- Rural Opportunities Initiative – $750,000 Lottery Funds was added on a one-time basis for the Rural Opportunities Initiative (ROI) grant program, which supports entrepreneurship-based economic development in rural communities. The program was piloted in 2015-17 through SRF and received one-time Lottery Funds support of $750,000 in 2017-19. A budget note requires the Department to report to the Emergency Board on the ROI grant program.
- Oregon Growth Fund – $629,199 Lottery Funds was added for the Oregon Growth Fund (OGF) to increase capital available to the state's early-stage small businesses and promote economic development. OGF investments are managed by the Oregon Growth Board and include private sector venture capital funds, Oregon angel conferences, community development finance institutions, and funds that provide access to capital and mentoring for Oregon small businesses and startups. Lottery Funds support for the OGF is approved as ongoing for the first time in the 2019-21 biennium. One-time Lottery Funds support was allocated in the 2017-19 ($1.25 million through a transfer from SRF) and 2015-17 ($500,000) biennia.

Lottery Funds expenditures decreased by $517,000 and Other and Federal Funds expenditures increased by $1.1 million and $204,629, respectively, due to the transfer of two positions (2.00 FTE) to the Operations Division, five positions (5.00 FTE) from the Infrastructure Division, downward reclassification of eight additional positions, and increase of two positions from half to full-time to align staff and resources with the agency's organizational structure. Transfers and reclassifications result in 12 Regional Development Officers, classified as Operations and Policy Analyst 4 positions, in the BIT Division to support statewide program service delivery.

Infrastructure

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	2,000,000	--	--
Lottery Funds	3,392,620	2,561,780	1,759,132	5,351,473
Other Funds	37,524,424	350,213,813	371,519,434	504,570,425
Other Funds (NL)	119,719,725	226,640,094	232,567,250	267,567,250
Federal Funds	22,548,513	33,727,325	35,018,268	34,859,620
Total Funds	**$183,185,282**	**$615,143,012**	**$640,864,084**	**$812,348,768**
Positions	38	37	37	34
FTE	37.00	37.00	37.00	33.25

Program Description

The Infrastructure program area houses the Department's community development initiatives that assist communities primarily through support of infrastructure improvements. Infrastructure programs finance projects for municipalities, schools, nonprofit, and private organizations that address public health, safety, and compliance issues and support business establishment and expansion within a community. The Special Public Works Fund, Water Fund, and Safe Drinking Water Revolving Loan Fund are the primary revolving loan programs. Other Infrastructure programs include the Community Development Block Grant, Port Revolving Loan Fund, Port Planning and Marketing Fund, and Marine Navigation Improvement Fund. The Department is also responsible for administering Regional Solutions projects funded through the Regional Infrastructure Fund. In the 2013 legislative session, the Legislature added the Seismic Rehabilitation Grant Program to the Infrastructure Division. The seismic program was transferred from the Oregon Military Department to OBDD effective January 1, 2014. Additionally, the Brownfields, Industrial Lands, and Broadband programs were transferred to the Infrastructure Division from BIT in the 2015-17 biennium budget. Infrastructure financing programs are overseen by an independent nine-member Infrastructure Finance Authority (IFA) Board. The Infrastructure program area was established to reflect the reorganization of the Department in 2009. The Division was originally called the Infrastructure Finance Authority but was renamed Infrastructure to reflect the addition of infrastructure programs that are not under the governance of the IFA Board.

Revenue Sources and Relationships

Infrastructure programs are primarily financed with Other Funds revenues generated from the issuance of bonds and earnings on revolving funds. Proceeds from the issuance of lottery revenue bonds are have been regularly approved to capitalize revolving loan funds to make infrastructure loans and grants. Net lottery bond proceeds of $30 million were deposited in the Special Public Works Fund (SPWF) in 2017-19, with $10 million specifically authorized for levee projects. The 2019-21 budget includes net lottery bond proceeds of $30 million for SPWF, $15 million for levee grants, and $5 million for the Brownfields Redevelopment Fund. Lottery bond proceeds also support designated infrastructure projects ($53.4 million in 2019-21 and $20.6 million in 2017-19), and Regional Solutions projects ($4 million in 2017-19). Revolving loan funds generate additional Other Funds revenues from loan principal and interest repayments, fees and service charges, and investment earnings. Oregon Bond Bank revenue bonds are also issued to finance infrastructure loans. The expenditures of the bond proceeds distributed to localities as loans or grants from revolving loan funds are budgeted as Other Funds Nonlimited (and not as Lottery Funds). Expenditures for program administrative costs are primarily funded with earnings generated from revolving loan funds are budgeted as limited Other Funds expenditures. Programs that exclusively award grants, such as Regional Solutions and the Levee Grant program, are also budgeted as Other Funds and not Other Funds Nonlimited.

Seismic Rehabilitation Grants are financed through the issuance of Article XI-M and XI-N general obligation bonds. Article XI-M bond proceeds finance grants for schools and Article XI-N proceeds finance grants for emergency services facilities. A total of $120 million of general obligation bond proceeds for seismic grants were approved in both the 2017-19 and 2019-21 budgets. Lottery Funds support the administration of the Seismic, Industrial Lands, and Broadband programs. Federal Funds are received for the Brownfields, Community Development Block Grant (CDBG), and Safe Drinking Water (SDW) programs. State match for CDBG and SDW is provided by SPWF. Although the SDW program is supported by both state and federal funds, the entire program is budgeted as Other Funds. The Oregon Health Authority Drinking Water Services manages the U.S. Environmental Protection Agency program grant, and transfers funds to OBDD's Infrastructure division to administer SDW loans.

Debt service costs on the lottery revenue bonds issued to finance Infrastructure programs are paid with Lottery Funds, and debt service on general obligation bonds issued for Seismic Rehabilitation Grants are paid with General Fund. However, debt service payments are shown in the Lottery and General Obligation Bond Debt Service program area, and not in the Infrastructure budget.

Budget Environment

The number of awards for community capital planning and construction projects has continued to increase with the economic recovery as communities have been able to invest in upgrading aging infrastructure. A total of 104 projects were awarded 2018 compared to 69 project awards in 2014. The amount committed has also continued to increase due to growth in the number of project awards, as well as escalating construction costs. Low-cost financing to build and maintain infrastructure remains an important rural economic development tool, with 87% of program funds being awarded to rural communities in 2018.

Infrastructure funds have been consistently capitalized over the last several biennia, which not only provides additional capital for near-term loans, but also increases the capacity of the programs to issue future loans through loan repayments and interest earnings. 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: $205 million of general obligation bond proceeds were approved for Seismic Rehabilitation Grants, and a total of $38.6 million of lottery revenue bond proceeds were approved for recapitalizing revolving loan funds, Regional Solutions, and other projects. While general obligation bond proceeds for seismic grants decreased to $120 million in the 2017-19 and 2019-21 budgets, lottery bond proceeds for infrastructure projects and programs increased to $54.6 million in 2017-19 and $103.4 million in 2019-21. 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 2019-21 legislatively adopted budget of $812.3 million total funds represents a 32.1% increase from the 2017-19 legislatively approved budget. General Fund support was eliminated in the budget due to the phase-out of a one-time infrastructure project grant approved in the 2017-19 budget. Lottery Funds support more than doubled due to added funding for the Broadband Office and an additional $3.6 million for one-time infrastructure project grants to the City of Sandy ($500,000), Levee Ready Columbia ($500,000), Port of Port Orford ($1.6 million), and City of Astoria ($1 million). Lottery Funds expenditure limitation of $1 was also provided for a new Tide Gates and Culverts Repair and Replacement Program. A lottery allocation of $6 million was approved for the program and expenditure limitation will be increased after the Department presents a request that includes a proposal for distributing grants and loans for the repair and replacement of tide gate and culvert infrastructure. Other Funds limited expenditures increased $154.4 million (or 44.1%) over the 2017-19 budget as a result of limitation provided for new bond authorizations and for bond proceeds carried forward from the prior biennium budget. The majority of bonds approved for the 2017-19 biennium were not issued until spring 2019, so many of the expenditures financed by those bonds are included in the 2019-21 budget. Bonding approved for infrastructure programs and projects represents a 27.9% increase over the prior biennium.

All bond proceeds in the budget are enhancements above current service level, even when the amount of bond funding is equal to or below the prior biennium level. Enhancements to the Infrastructure budget include:

- Seismic Rehabilitation Grant Program – $121.5 million of Article XI-M and XI-N general obligation bonds were authorized for the Seismic Rehabilitation Grant Program to issue competitive grants for the seismic rehabilitation of critical public buildings. The approved amount includes $100 million for seismic rehabilitation grants to schools, $20 million for grants to emergency services facilities, and $1.5 million for costs to issue the bonds. Funding is approved at the same level as the prior biennium. ($121.6 million Other Funds). Bonds are scheduled to be issued in spring 2020 ($60.7 million) and spring 2021 ($60.7 million). General Fund debt service on the approved bonds is projected to total $4.5 million in the 2019-21 biennium, rolling up to $18.8 million in 2021-23.
- Special Public Works Fund – $33.4 million of lottery revenue bonds were approved to capitalize the Special Public Works Fund (SPWF) to finance loans and grants for planning, purchasing, and improvement of municipally-owned infrastructure, such as water and wastewater systems, industrial land sites, and other community facilities. The amount approved includes $30 million for SPWF projects (Other Funds Nonlimited), $442,362 for bond costs of issuance (Other Funds), and $2.9 million to be held in debt service reserves. Funding is approved at the same level as the prior biennium, with the exception that $10 million of the 2017-19 authorization was dedicated to levee inspection and repair projects (SB 306, 2015). Levee project funding approved in 2019-21 was not deposited in SPWF, but a separate Levee Project Grant Fund.
- City of Salem Drinking Water Improvements – $22 million of lottery revenue bonds were approved for improvements to the City of Salem's drinking water system. The amount approved includes $20 million for the grant (Other Funds), $312,909 for bond costs of issuance (Other Funds), and $1.7 million to be held in debt service reserves.
- Levee Project Grant Fund – $16.6 million of lottery revenue bonds were approved for levee inspection, accreditation, certification, or repair project grants. The amount approved includes $15 million for levee project grants (Other Funds), $278,251 for bond costs of issuance (Other Funds), and $1.3 million to be held in debt service reserves. In prior biennia, amounts designated for levee projects ($10 million in 2017-19 and $5 million in 2015-17) were financed through SPWF, which is primarily a loan program and has statutory limits for grant awards. During the 2017-19 biennium, only $2 million of the $10 million authorized was issued for levee projects, due to a lack of loan requests. While a significant need to fund levee repair projects exists, many levee owners do not have sufficient income or resources to repay a loan. Net bond proceeds approved in the 2019-21 biennium will be deposited in a new Levee Project Grant Fund to allow funds to be distributed as grants.
- Port of Coos Bay Channel Improvements – $16.6 million of lottery revenue bonds were approved for the Port of Coos Bay Channel Project to deepen and widen the lower Coos Bay deep draft navigation channel. The amount approved includes $15 million for the Channel Deepening project (Other Funds), $278,251 for bond costs of issuance (Other Funds), and $1.3 million be held in debt service reserves. $15 million of net lottery bond proceeds were also approved for the for the project in the 2017-19 biennium; however, the statutory requirements for distribution of the bond proceeds were not met and the bonds were not issued.
- Confederated Tribes of Warm Springs Wastewater Treatment Plan Upgrade, Water Meter and Distribution Projects – $8.6 million of lottery revenue bonds were approved for the Confederated Tribes of the Warm Springs Reservation to improve to the Warm Springs Wastewater Treatment Plan, install water meters, and improve to the water distribution system. The amount approved includes $7.8 million for the grant (Other Funds), $123,719 for bond costs of issuance (Other Funds), and $671,281 to be held in debt service reserves.
- City of Sweet Home Wastewater Treatment Plant Upgrade – $7.7 million of lottery revenue bonds were approved for rehabilitation of the City of Sweet Home's Wastewater Treatment Plant. The amount approved

includes $7 million for the grant (Other Funds), $120,737 for bond costs of issuance (Other Funds), and $604,263 to be held in debt service reserves.

- Brownfields Redevelopment Fund – $5.6 million of lottery revenue bonds were approved to capitalize the Brownfields Redevelopment Fund for cleanup and redevelopment of brownfields properties. The amount approved includes $5 million for brownfields projects (Other Funds Nonlimited), $106,268 for bond costs of issuance (Other Funds), and $498,732 to be held in debt service reserves. The Brownfields Redevelopment Fund was last capitalized in 2015-17 with $7 million of net lottery bond proceeds.
- City of Mill City Storm Drainage Improvements – $2.1 million of lottery revenue bonds were approved for improvements to the City of Mill City's storm drainage system. The amount approved includes $1.9 million for the grant (Other Funds), $43,761 for bond costs of issuance (Other Funds), and $166,239 to be held in debt service reserves.
- Hood River Waterfront Stormwater Line – $1.9 million of lottery revenue bonds were approved for the City of Hood River to replace the Hood River waterfront storm water line. The amount approved includes $1.7 million for the grant (Other Funds), $43,098 for bond costs of issuance (Other Funds), and $151,902 to be held in debt service reserves.

Lottery bonds authorized for infrastructure programs and projects are scheduled to be sold in spring 2021, so no debt service payments are due in the 2019-21 biennium. Lottery Funds debt service on the approved bonds is estimated to be $18.6 million in the 2021-23 biennium.

In the 2019 session, the Oregon Broadband office was created within the OBDD Infrastructure Division through HB 2173. The Office is charged with supporting broadband infrastructure deployment, including awarding and managing funds allocated to OBDD for use by the Office to support broadband projects. Expenditure limitation was increased by $178,180 Lottery Funds and $764,939 Other Funds and four permanent positions (3.25 FTE) were added to establish the Broadband Office. Lottery Funds were allocated support the first six months of budgeted costs. Other Funds that would have been available from transfers to the Broadband Fund, established in HB 2184 (2019), were anticipated to support costs for the remainder of the biennium. However, HB 2184 was not passed by the Legislature during the 2019 session, resulting in a lack of funding for broadband project awards and costs to support the Broadband Office for the remaining 18 months of the 2019-21 biennium.

Lottery Funds expenditures increased by $79,888 and Other and Federal Funds expenditures decreased by $1.4 million and $153,389, respectively, due to the transfer of two positions (2.00 FTE) to the Operations Division, five positions (5.00 FTE) to the Business, Innovation, and Trade Division, upward reclassification of six additional positions, and increase in professional services for the Seismic Rehabilitation Grant Program. Transfers and reclassifications result six Regional Project Managers, classified as Operations and Policy Analyst 3 positions, in the Infrastructure Division to support statewide program service delivery.

Film and Video Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Lottery Funds	1,164,460	1,207,545	1,253,432	1,253,432
Total Funds	**$1,164,460**	**$1,207,545**	**$1,253,432**	**$1,253,432**

Program Description

The Film and Video Office is a semi-independent 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 recruitment and 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, creates public-private partnerships to support the industry, and administers the state's film and video incentive programs. While the Office has traditionally worked with film, television, and commercial producers, customers have expanded to the growing animation, digital media, and video game production industries.

Revenue Sources and Relationships
Lottery Funds support the Film and Video Office's operating costs, including personnel costs for the Office's four staff. 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 two film incentive programs: the Oregon Production Investment Fund (OPIF) and Greenlight Oregon Labor Rebate. These programs are financed through tax credits which impact the state budget as reductions in revenue. No expenditure limitation is included in the OBDD budget for the incentive programs.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $1.3 million for the Film and Video Office represents a 3.8% increase over the prior biennium level and is equal to the current service level amount.

Support for the Film and Video Office's incentive programs is also provided in the 2019-21 biennium, though rebates awarded under the programs are not included in budgeted expenditures. The Oregon Production Investment Fund (OPIF) 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. OPIF rebates are financed through an annual tax credit auction conducted by the Department of Revenue. The Film and Video Tax Credit was extended through January 1, 2024 in the 2015 session. Total credits are limited to $28 million per biennium beginning in 2017-19; up from $22 million in the 2015-17 biennium. The Greenlight Oregon Labor Rebate program provides a rebate of up to 6.2% of Oregon payroll costs for qualifying projects that spend more than $1 million in Oregon. In the 2017 session, the Greenlight Labor Rebate was extended through January 1, 2024.

Arts

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	4,094,494	5,417,287	3,922,866	3,916,920
Lottery Funds	--	--	--	2,125,000
Other Funds	10,158,271	13,021,701	13,005,305	15,699,921
Federal Funds	1,528,897	1,957,113	2,031,548	2,031,548
Total Funds	**$15,781,662**	**$20,396,101**	**$18,959,719**	**$23,773,389**
Positions	11	11	11	10
FTE	11.00	10.50	10.50	9.50

Program Description
The mission of the Oregon Arts Commission is to enhance the quality of life for all Oregonians through the arts by stimulating creativity, leadership, and economic vitality. The Arts 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 arts programs in Oregon; providing services to arts organizations, individual artists, and communities; and managing Oregon's Percent for Art 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 Arts Commission was established in 1967 to foster the arts in Oregon and became a part of OBDD in 1993. Nine commission members, appointed by the Governor, develop statewide arts policy and oversee the grant-making activities of the Arts Commission.

The Arts program area also includes the Trust for Cultural Development (Oregon Cultural Trust). In 2001, the Oregon Cultural Trust was established to lead Oregon in cultivating, growing, and valuing culture as an integral part of communities. A Cultural Tax Credit was created to encourage contributions to support and provide ongoing funding for the Cultural Trust. 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. An eleven-member Trust for Cultural Development Board, appointed by the Governor, governs the Trust's activities.

Revenue Sources and Relationships

General Fund supports the Arts Commission operations, grant programs, and provides the required 1:1 match for federal NEA funds. The Arts Commission receives both designated and competitive federal NEA funding that is used to support grant programs. Other Funds received by the Arts Commission include donations and grants from partner organizations, such as the Oregon Cultural Trust, Oregon Community Foundation, and Ford Family Foundation, as well as revenue from the Percent for Art Program. Oregon Percent for Art is a statutory program that requires that 1% of the cost to construct or renovate most state buildings be used for the acquisition of artwork. The Arts Commission receives up to 10% of the Percent for Art revenue to administer the program, which is dependent upon the state building projects approved each biennium.

The Oregon Cultural Trust is primarily supported with Other Funds from donations received through the Cultural Tax Credit, but also receives interest earnings on the Trust for Cultural Development Account (Trust Account), and revenue from the sale of Oregon Cultural Trust license plates. ODOT transfers revenue from the plate surcharge ($30 per biennium) to the Cultural Trust for marketing and promotional costs. In the 2019-21 biennium, the Trust estimates receiving approximately $750,000 in cultural license plate revenue that will be used to market the tax credit and increase donations.

Annual donations of approximately $4-5 million are utilized to support the Trust through a statutory distribution formula that specifies that 40-50% of annual donations are to be deposited in the Trust Account. The remaining 50-60%, plus interest earnings on the Trust Account, are to be distributed as Cultural Development Grants (50%), Community Cultural Participation grants (25%), and grants to core partner agencies (25%), with up to $400,000 (adjusted annually for inflation) for operation of the Trust. The permanent Trust Account had a balance of approximately $27 million at the end of 2018. In the 2019 session, the Cultural Trust Tax Credit was extended through January 1, 2026.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $23.8 million for the Arts Division is a $3.4 million (or 16.6%) increase over the prior biennium level and is 25.4% above the current service level. General Fund decreased 27.7% from the prior biennium due to the phase-out of $1.65 million of one-time cultural project grants. Additionally, Lottery Funds support of $2.1 million was added to the 2019-21 budget for one-time cultural project grants to the Cottage Theatre ($375,000), High Desert Museum ($250,000), Liberty Theatre ($1 million), and Oregon Nikkei Legacy Center ($500,000). Other Funds limited expenditures increased $2.7 million (or 20.6%) over the 2017-19 budget due to limitation provided for bond authorizations and for bond proceeds carried forward from the prior biennium budget. Lottery bonds approved for cultural projects in the 2017-19 biennium were not issued until spring 2019, so the majority of expenditures financed by those bonds are included in the 2019-21 budget. The following legislatively-directed cultural organization capital projects were approved in the 2019-21 budget:

- Beaverton Arts Foundation - Patricia Reser Center for the Arts – $1.7 million of lottery revenue bonds were approved for the Beaverton Arts Foundation to construct the Patricia Reser Center for the Arts. The amount approved includes $1.5 million for the grant (Other Funds), $39,469 for bond costs of issuance (Other Funds), and $135,531 to be held in debt service reserves.
- Lincoln City Cultural Center - Cultural plaza and Exterior Grounds – $1.7 million of lottery revenue bonds were approved for the development and renovation of the Lincoln City Cultural Center's cultural plaza and exterior grounds. The amount approved includes $1.5 million for the grant (Other Funds), $39,469 for bond costs of issuance (Other Funds), and $135,531 to be held in debt service reserves.

Lottery bonds authorized for cultural capital projects are scheduled to be sold in spring 2021, so no debt service payments are due in the 2019-21 biennium. Lottery Funds debt service on the approved bonds is estimated to be $527,718 in the 2021-23 biennium.

The Cultural Trust's administrative expenditures were reduced by $250,399 Other Funds to align costs with operating revenues. The Arts Assistant Director position (1.00 FTE) was abolished, resulting in a General Fund reduction of $125,961 and an Other Funds reduction of $125,961. General Fund savings of $124,438 was used shift the Arts Executive Director position from 50% General Fund and 50% Other Funds to 90% General Fund and 10% Other Funds, resulting in an Other Funds reduction of $124,438. Remaining General Fund savings of $1,523 were used to increase the Arts Commission other services and supplies budget.

Lottery and General Obligation Bond Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,559,695	38,591,534	54,126,740	56,176,824
Lottery Funds	42,251,316	49,761,252	51,998,740	48,307,543
Other Funds	4,591,285	108,109	--	157,290
Total Funds	**$57,402,296**	**$88,460,895**	**$106,125,480**	**$104,641,657**

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 issued to support OBDD programs, and lottery revenue bonds issued to finance legislatively-specified projects promoting economic development. Debt service on lottery revenue bonds is paid by Lottery Funds and debt service on general obligation bonds is paid by General Fund. Other Funds (primarily interest earnings on bond proceeds) may also be used to pay debt service. Debt service on revenue bonds issued through the Oregon Bond Bank is included in Other Funds Nonlimited in the Infrastructure program area.

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 included Article XI-M and XI-N general obligation bond authorizations for the Seismic Rehabilitation Grant Program, as well as Article XI-Q bond authority for innovation infrastructure. Article XI-M and XI-N bonds have been authorized in each subsequent biennium, but no additional Article XI-Q bonds have been authorized since 2013-15. The 2019-21 budget authorizes a total of $121.5 million of general obligation bonds, to provide $120 million of bond proceeds to the Department for the Seismic Rehabilitation Grant Program. Funding for the Seismic program is approved at the same level as the prior biennium. This total includes:

- $101.2 million of Article XI-M bonds to finance $100 million of seismic rehabilitation projects for public education buildings; $50.6 million of the approved bonding is scheduled to be issued in spring 2020 and the remaining $50.6 million will be issued in spring 2021. Debt service payments are estimated to total $3.8 million General Fund in the 2019-21 biennium, increasing to $15.7 million in 2021-23.
- $20.3 million of Article XI-N bonds to finance $20 million of seismic rehabilitation projects for emergency services buildings; $10.1 million of the approved bonding is scheduled to be issued in spring 2020 and the remaining $10.1 million will be issued in spring 2021. Debt service payments are estimated to total $757,045 General Fund in the 2019-21 biennium, increasing to $3.1 million in 2021-23.

The 2019-21 legislatively adopted budget also authorizes $117.8 million of lottery revenue bonds (a 75.3% increase over the prior biennium level) for the Department, including:

- $42.3 million for legislatively-designated infrastructure projects.
- $33.4 million to increase the corpus of the Special Public Works Fund for municipal infrastructure projects.
- $16.6 million for levee inspection, accreditation, certification, or repair project grants.

- $16.6 million to reauthorize the Port of Poos Bay Channel Deepening project.
- $5.6 million to capitalize the Brownfields Redevelopment Fund for cleanup and redevelopment of brownfields properties.
- $3.4 million for legislatively-designated cultural capital projects.

Lottery revenue bonds are scheduled to be issued in spring 2021, so no debt service payments are due in the 2019-21 biennium. Beginning in 2021-23, debt service costs on the newly-approved lottery bonds are projected to equal $19.1 million per biennium.

Earnings on Article XI-M and XI-N bond proceeds issued for the Seismic Rehabilitation Grant Program were used to reduce general obligation bonds issued for the program in the 2017-19 biennium. Interest of $6.5 million was used to replace a portion of the $75 million Article XI-M bonds and $1.2 million used to replace a portion of the $10 million Article XI-N bonds authorized for the spring 2019 sale. Proceeds of 2018 and 2019 bond sales ($112.3 million), plus the interest earnings ($7.7 million), will be used to fund seismic grant awards at the level approved in the 2017-19 budget. The reduced general obligation bond issuance, combined with favorable terms on the spring 2019 lottery revenue bond and general obligation bond sales, decreased 2019-21 current service level debt service by $2.4 million General Fund and $3.6 million Lottery Funds.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget includes $56.2 million General Fund to pay debt service on general obligation bonds. General Fund debt service represents a 45.6% increase over the prior biennium level. The expenditures support $51.6 million of debt service costs on outstanding general obligation bonds, plus $4.5 million of debt service costs on $60.7 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 spring 2020. The remaining $60.7 million of Article XI-M and Article XI-N bonds authorized in the budget will not be issued until spring 2021, and thus impose no debt service costs on the 2019-21 budget. Debt service costs for the $121.5 million of new bonds authorized for Seismic Rehabilitation Grants are projected to total $18.8 million per biennium, beginning in 2021-23.

The 2019-21 budget includes $48.3 million Lottery Funds for debt service payments on outstanding lottery bonds. All payments are for bonds authorized and issued prior to the 2019-21 biennium. Lottery Funds debt service is a 2.9% decrease from the prior biennium level. The decrease is attributable to the net impact of additional debt service on bonds issued during the 2019-21 biennium and the payoff of older lottery bond series. Debt service payments on the $117.8 million of lottery revenue bonds authorized to be issued in 2019-21 are projected to equal $19.1 million per biennium, beginning in 2021-23.

Other Funds debt service expenditure limitation of $157,290 is also included in the budget to allow the agency to apply interest earnings to debt service payments in the 2019-21 biennium, reducing associated General Fund ($109,152) and Lottery Funds ($48,138) debt service expenditures.

EMPLOYMENT DEPARTMENT

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	5,868,497	--	--	15,688,586
Other Funds	125,985,221	152,904,308	169,980,964	192,385,467
Other Funds (NL)	1,012,699,018	1,424,000,000	1,582,000,000	1,582,000,000
Federal Funds	134,330,971	159,644,348	153,562,854	154,315,171
Federal Funds (NL)	60,480,860	70,000,000	100,000,000	100,000,000
Total Funds	**1,339,364,567**	**1,806,548,657**	**2,005,543,818**	**2,044,389,224**
Positions	1,259	1,320	1,270	1,389
FTE	1,226.45	1,259.03	1,225.20	1,323.58

2015-17 Actual by program/division do not add to the 2015-17 Actual Agency Total due to the transfer of the Oregon Talent Council to the Higher Education Coordinating Commission in 2017.

Overview

The Oregon Employment Department (OED) offers services in the following 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.
- The Paid Family and Medical Leave Insurance program, created through HB 2005 (2019).

OED also provides administrative support to the independent Office of Administrative Hearings (OAH), which conducts contested case hearings for approximately 70 state agencies.

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 created beginning in 2017-19 to better enable the monitoring of multi-year planning and execution costs related to modernizing the Employment Department's aging information technology and business systems infrastructure. Modernizing these systems is expected to be a multi-year endeavor, and expenditures pertaining to this effort will support managing budget and position authority devoted to the project.

The passage of HB 2005 late in the 2019 legislative session resulted in a new responsibility for OED: creation of a paid family and medical leave insurance program (often referred to as FAMLI) to provide eligible employees with a portion of wage replacement when the employee is out on family or medical leave. HB 2005 established operative dates for administrative rules (September 1, 2021), beginning to collect contributions (January 1, 2022), and payment of benefits (January 1, 2023). A new division will be created to plan, create, and determine how the new program will be administered (legislation left open the possibility of contracting with another entity).

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 $4.8 billion in June of 2019. These funds are designated for unemployment insurance compensation payments to qualified individuals and are budgeted as Nonlimited.
- 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 OED Director. For the 2019-21 biennium, the Department expects to have $56.5 million available, based on $19.7 million of estimated new revenue and $36.8 million of estimated carryover from 2017-19.
- 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 2019-21 legislatively adopted budget assumes that the diversion will generate $89.2 million, which supplements $20.2 million in carryover from 2017-19. All SEDAF monies are continuously appropriated 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 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 2019-21, OED projects $5.6 million in interest collections, supplementing $30.6 million in carryover from 2017-19.
- 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. 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, 2019, the balance of these funds was $81.9 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 $16.9 million in revenue related to SNAP services.

OED also receives Other Funds revenues from other state agencies as reimbursement for providing job placement services and for custom research services. The Office of Administrative Hearings charges for its conducted case hearings service.

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 2019 revenue forecast, the Employment Department anticipates $95.4 million will be distributed by the U.S. Department of Labor for the 2019-21 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 2019-21 is $9.5 million.
- Wagner-Peyser – $16.1 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 2019-21, $30 million is anticipated from this source.
- Veterans' placement services are assumed to amount to $5.3 million in 2019-21.

- Estimates of funding for federal unemployment insurance benefits – payments to federal workers and trade impacted workers – are expected to amount to $100 million in 2019-21.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $2.2 million in 2019-21.
- Workforce Information Grant funds are provided for investing in research and distributing labor market information. An estimated $960,000 is anticipated for 2019-21.
- 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 $350,000 from the U.S. Department of Labor to administer this program in 2019-21.
- Foreign Labor Certification Grant funds are anticipated at $600,000.

Budget Environment

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. Unemployment rates in Oregon continue to be low and the labor supply tight, despite projected slow-down in the rate of economic growth. U.S. trade policies could have implications for the national and state economy, and a lack of housing affordability is a risk for Oregon's labor market and growth prospects. The Bureau of Labor statistics reported that the June 2019 seasonally adjusted unemployment rate in Oregon was 4.0% (matching a record low for Oregon), and employers reported six of every ten job vacancies as "difficult to fill," often due to a lack of applicants.

Population growth in Oregon has been driven largely by in-migration. Coupled with an aging workforce and looming retirements, gaps are being created that employers struggle to fill. Because unemployment rates are at a historic low, those long-term unemployed are often those who have particular challenges. Automation, technology, Artificial Intelligence, and the emerging "gig economy" combine to create unique challenges to the Department's focus of matching qualified workers to job opportunities and helping to connect potential employers to training opportunities to facilitate filling specific skilled labor positions. The Department works in partnership with 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.

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.

OED continues its methodic planning and procurement efforts aimed at replacing its unemployment insurance tax and benefit system technology, which has involved assessing and mapping business practices, as well as thoroughly detailing what features will be required for security, federal compliance, and maintenance of inter-agency collaborations (such as for collections and reporting functions in conjunction with the Oregon Department of Revenue).

A new division will be created within OED to take on the task of creating the paid family and medical leave insurance program (Oregon will be one of just 6 states with a state paid leave insurance program). The Department will need to assess the risks inherent in planning for a massive new business operation, with the potential for new and detailed information systems, at the same time it is replacing core business system functions. It is possible that creation of the new program will require much of the same skills and expertise being utilized in the systems replacement project; OED may be challenged in successful implementation for both efforts simultaneously.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 13.2% total funds increase from the 2017-19 legislatively approved budget. This increase is due to increases in projected unemployment insurance benefits (budgeted as Nonlimited), additional expenditures for IT modernization, an anticipated growth in services to clients of the Department of Human Services, and spending related to establishing the new paid family and medical leave insurance program.

In each agency program, the 2019-21 budget includes reductions based on service charge reductions and rate adjustments in the budgets of the Department of Justice, the Secretary of State, the Public Employees Retirement System, and the Department of Administrative Services. Position reclassifications were approved across all divisions to enable the Department to better utilize existing position authority, and all reclassifications were approved by the Department of Administrative Services Chief Human Resource Office. These position actions resulted in a net increase of $158,387 total funds additional expenditure limitation, and no net increase in the number of positions or FTE.

Specific spending changes in each division are discussed below.

Unemployment Insurance

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	17,379,872	31,504,638	40,857,869	40,486,443
Federal Funds	111,619,873	90,757,336	83,917,650	83,789,137
Total Funds	**128,999,745**	**122,261,974**	**124,775,519**	**124,275,580**
Positions	626	563	532	533
FTE	597.23	513.49	489.07	490.07

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 2019-21 legislatively adopted budget projects expenditures of Federal Funds to support the UI program in the following amounts:

- UI Administration Grant: $76.4 million
- Reemployment Services and Eligibility Assessment: $300,000

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 1.6% increase from the 2017-19 legislatively approved level. In 2017, 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 budget structure. Position reclassifications were approved, along with one additional position (1.00 FTE) being added, an Operations and Policy Analyst 2, in response to additional analysis and reporting required by the U.S. Department of Labor.

Shared Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	15,544,924	16,778,300	16,778,300
Federal Funds	--	27,308,246	25,722,402	25,662,789
Total Funds	**--**	**42,853,170**	**42,500,702**	**42,441,089**
Positions	--	138	131	131
FTE	--	136.91	131.00	130.50

Program Description

The Shared Services budget structure was created in 2017 and includes the offices of the Director and Deputy Director; Internal audit; agency Information and Technology services; Administrative and Business Support (budgeting, accounting, payroll, safety/risk, facilities, and procurement); Legislative Affairs and Communications; and Human Resources.

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: $19 million
- Reemployment Services and Eligibility Assessment Grant: $1.7 million
- Trade Act Administration: $2.1 million
- Veteran's Employment Services: $800,000
- Wagner-Peyser Funds: $1.63 million
- Work Opportunity Tax Credit: $10,000
- Bureau of Labor Statistics: $300,000
- Foreign Labor Certification: $50,000
- Workforce Information Grant: $110,000

Other Funds utilized in the program come primarily from SEDAF ($4.6 million). Penalty and Interest ($10.5 million) and an administrative allowance related to SNAP funds ($1.5 million) are also used for Shared Services.

Legislatively Adopted Budget

The legislatively adopted budget reduced Federal Funds expenditures from the 2017-19 legislatively approved budget by 6.03% and 6.41 FTE. The reduction was part of an agency-wide package of reclassifications to better utilize existing position authority. Months were reduced on an existing Accounting Technician 3 in the financial services section due to a decrease in workload, and to finance reclassifications in this division and elsewhere throughout the agency. Four positions in the Shared Services program were reclassified, including an Information systems support position, two Principle Executive Managers, and an Operations and Policy Analyst 3 (reclassified to a Project Manager 2).

Workforce Operations

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	74,350,322	66,945,957	69,136,314	78,262,794
Federal Funds	16,046,978	33,871,234	35,896,845	37,099,221
Total Funds	**90,397,300**	**100,817,191**	**105,033,159**	**115,362,015**
Positions	455	443	431	480
FTE	454.75	438.30	430.75	479.75

Program Description
The Workforce Operations program 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 37 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
Other Funds account for 67.8% of the Workforce Operation's program revenue. The primary source of Other Funds is $53.6 million from SEDAF. SNAP Employment and Training Funds support $15.4 million of total Other Funds expenditures, which represent services to those clients. The primary source of Federal Funds supporting the Workforce Operations program is $11.5 million of Trade Act funds, followed by $9.2 million of Wagner-Peyser funds, $7.5 million of Reemployment Eligibility Assessment funds, $7.5 million of Reemployment Eligibility Assessment funds, and $4.5 million of funds for Veterans programs. The Workforce Opportunity Tax Credit supports $340,000 of program expenditures, and Foreign Labor Certification comprises $550,000.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a $14.5 million total funds increase from the 2017-19 legislatively approved budget.

The Legislature approved 18 permanent and 23 limited duration positions (41.00 FTE) to provide job placement services for clients of the Department of Human Services under the Job Opportunity Basic Skills (JOBS) program, the Supplemental Nutrition Assistance Program Training and Employment Plan (STEP), and the Able-Bodied Adults Without Dependents (ABAWD) programs. Clients in the JOBS and ABAWD programs must complete federally mandated work participation requirements to receive benefits. The STEP program is voluntary and participating clients are assessed and proved limited training if needed. ABAWD clients receive STEP services as part of their required participation. Basic skills assessment and training have been provided under contract with DHS for the past eight biennia. This is the third year for the JOBS and ABAWD programs; these more intensive services were initially offered in seven counties in 2017-19, and expanded to an additional six in January 2019.

Requests for additional foreign labor certification, plus additional workers eligible for retraining, casework, and job placement services under the Trade Act drove the approval of $1,468,736 in additional Federal Funds expenditure limitation and 8 permanent full-time positions to meet additional workload in these programs.

Realigning existing position authority with agency needs resulted in the downward reclassification of a management position, and the abolishment of a Business and Employment Specialist position in favor of the establishment of an Operations and Policy Analyst position reclassification. Approval of these actions increased Other Funds expenditure limitation by $28,631.

Office of Administrative Hearings

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	25,981,919	27,423,763	29,379,031	29,236,295
Total Funds	**25,981,919**	**27,423,763**	**29,379,031**	**29,236,295**
Positions	112	104	103	103
FTE	110.38	102.88	101.88	101.88

Program Description

The Office of Administrative Hearings is an independent entity directed by a Chief Administrative Law Judge appointed by the Governor. 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. Administrative support to the OAH is provided by the Employment Department.

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 2019-21 legislatively adopted budget is a 6.6% increase from the 2017-19 legislatively approved budget. The only adjustments to the current service level for this program were due to changes in statewide assessments and rates.

Workforce and Economic Research

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	8,305,034	6,664,428	7,671,751	7,668,142
Federal Funds	6,664,120	7,707,533	8,025,957	7,764,023
Total Funds	**14,969,154**	**14,371,964**	**15,697,708**	**15,432,165**
Positions	64	54	55	54
FTE	62.42	53.50	54.50	54.00

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 responds to 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 U. S. Department of Labor ($8 million); Other Funds from SEDAF funds ($6.5 million); and contracts for customized analysis ($880,000).

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a 7.4% increase from the legislatively approved budget. One position was eliminated (0.5 FTE) to refinance the reclassification of positions in this division and elsewhere in the agency.

Modernization Initiative

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	4,820,598	6,157,699	19,953,564
Total Funds	**--**	**4,820,598**	**6,157,699**	**19,953,564**
Positions	--	18	18	55
FTE	--	13.95	18.00	46.63

Program Description
The Employment Department began tentative steps to modernize its information systems and business processes 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 projects initiated will require planning, procurement, testing, and deployment, and are expected to take several biennia. Authorization to begin planning 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 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.

Planning efforts related to the replacement of Unemployment Insurance-related systems gained momentum in the 2017-19 legislatively approved budget. In that biennium, OED created a separate administrative division to manage and track these efforts, with an approved 2017-19 modernization budget of $3,072,547, plus $2,298,614 in base budget expenditures. However, updated projections assumed total expenditures would be about $3.6 million for the 2017-19 biennium. OED has also identified at least one other division, the Workforce Operations Division, as needing modernized systems. Analysis of system requirements and mapping of processes will begin in earnest when UI systems have been procured and tested in anticipation of deployment.

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 is referred to as UI Modernization Funds. These dollars can be used for agency administration, but 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 $81.95 million ending balance at the close of the 2019-21 biennium. For the 2019-21 biennium, OED plans to use a combination of SEDAF funds ($4.1 million), penalty and interest funds ($12.2 million), and Fraud Control Funding ($3.6 million) to support IT modernization expenditures in the 2019-21 biennium, which should help to ensure sufficient revenue for future phases and business systems.

Legislatively Adopted Budget
The legislatively adopted budget authorizes just under $20 million in Other Funds expenditure limitation and 55 positions (46.63 FTE) devoted to the modernization project in the 2019-21 biennium. A policy option package totaling $13.7 million and 37 positions (28.63) was added to current service level expenditures of $6.2 million and 18 positions (18.00 FTE). The legislatively adopted budget will enable OED to initiate the procurement and begin implementation of a replacement system for Unemployment Insurance tax and benefit administration. Independent quality management services are included. Project deliverables include completion and posting for

the project Request for Proposals, solution vendor selection and contracting, project team and staff recruitments; facility preparation; equipment installation; data analysis, cleansing, and conversion; updated business case, risk assessment, and project management plans; and independent quality review and oversight. Status reports are due to the Office of the Chief Information Officer and the Legislative Fiscal Office throughout the project's lifecycle, as well as a status report to the Legislature during the 2020 annual legislative session or interim legislative committees as required.

Nonlimited

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	1,012,699,018	1,424,000,000	1,582,000,000	1,582,000,000
Federal Funds (NL)	60,480,860	70,000,000	100,000,000	100,000,000
Total Funds	**1,073,179,878**	**1,494,000,000**	**1,682,000,000**	**1,682,000,000**

Program Description

Payments of unemployment benefits (associated with the UI program) and certain payments associated with the federal Trade Adjustment Act (associated with the Workforce Operations' 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 2019-21 legislatively adopted budget estimates nearly $1.7 billion in UI and Trade Act benefit payments, a 12.6% increase from the 2017-19 legislatively approved budget. This increase reflects growth in wages and overall employment (since more people have been working, the amount and volume of benefits due to seasonal adjustments in the employment cycle may be slightly higher than in the previous biennium). Benefit payments to federal employees are included in the "Federal Funds Nonlimited" category since these payments are paid by federal, not state, UI taxes.

Family and Medical Leave Insurance Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	15,688,586
Other Funds	--	--	--	--
Other Funds (NL)	--	--	--	--
Federal Funds	--	--	--	--
Federal Funds (NL)	--	--	--	--
Total Funds	--	--	--	**15,688,586**
Positions	--	--	--	33
FTE	--	--	--	20.75

The passage of HB 2005 resulted in the creation of a paid family and medical leave insurance (FAMLI) program to provide employees who are eligible for coverage with a portion of their wages while the employee is out on family or medical leave. The program is to be administered by OED or a third-party contract with OED and will provide compensated time off from work in specific circumstances including arrival of a child through birth, adoption, or foster care; care of a family member with a serious health condition; recovery of their own serious health condition; or for safe leave. Per the bill, rules for the program must be established by September 1, 2021; employer and employee contributions will be collected beginning January 1, 2022; and benefits are payable beginning January 1, 2023.

Revenue Sources and Relationships
The Legislature provided a General Fund appropriation to cover start-up costs for establishing the FAMLI program. The appropriation is reimbursable to the General Fund, without interest, when OED determines the balance in the paid family and medical leave insurance program fund for benefit administration is sufficient, but no later than January 1, 2023. The estimated expenditures associated with this appropriation represent only costs associated with planning and designing the program. Ongoing administrative costs, the cost of benefits, the cost of contributions for the state as an employer, and other costs are indeterminate until OED establishes rules and operational processes for the program.

Legislatively Adopted Budget
The legislatively adopted budget assumes the creation of a new division within OED to plan, create, and administer the new statewide paid family and medical leave insurance program or conduct research to examine the efficacy of contracting with a third party to administer the program. The appropriation enables the establishment of eight permanent full-time positions (6.58 FTE) and 25 full-time limited duration positions (14.17 FTE), as well as associated Services and Supplies costs.

The initial planning team consists of 13 positions at OED to oversee development of the program rules and functions as specified in the bill. A director, executive support specialist, information systems project manager, business analyst, third party and other state solutions (research) analyst, actuary, budget analyst, and project lead architect are all assumed to be permanent positions, hired between October and December 2019. A second team of 20 positions (10.28 FTE) is anticipated to brought on in March 2020 and will begin tasks related to establishing ongoing operations and planning for the information technology solution. An initial implementation plan will be presented to the Legislature during the February 2020 session, and help to guide the evaluation of which division positions may be designated as permanent in the future. OED's ability to successfully plan, manage, and implement simultaneous IT projects will also be the subject of further reports to the Legislature.

HOUSING AND COMMUNITY SERVICES DEPARTMENT

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	27,328,954	59,450,196	32,992,739	106,468,486
Lottery Funds	11,676,461	17,507,282	21,868,790	21,789,335
Other Funds	199,406,100	324,497,248	266,077,019	554,281,275
Other Funds (NL)	721,451,233	902,349,381	816,988,340	1,056,668,660
Federal Funds	118,193,644	122,817,211	127,694,100	126,659,025
Federal Funds (NL)	119,200,845	133,265,609	133,231,68	152,131,628
Total Funds	**1,197,257,245**	**1,559,886,927**	**1,398,852,616**	**2,017,998,409**
Positions	151	171	138	224
FTE	137.65	155.62	136.00	216.71

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 – $12,007,455 for emergency shelter programs and associated services.
- Emergency Housing Assistance Program – $32,999,965 (of which $5 million is a one-time investment, not anticipated as part of the 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.
- Housing Choice Landlord Guarantee Program – $310,920 for reimbursement of up to $5,000 for damages caused by renters receiving federal tenant-based assistance payments.
- Elderly Rental Assistance Program – $1,463,580 for payment assistance and homelessness prevention for low-income seniors.
- A one-time investment of $5 million for expansion of shelter capacity; and
- A one-time investment of $3 million for resources to help renters access available housing.

Multi-Family Housing development programs which receive General Fund include the Local Innovation and Fast Track (LIFT) Housing Program; $449,827 is included for underwriting, management, and ongoing monitoring of affordable housing projects constructed with Article XI-Q bonds. Database maintenance costs of $255,255 related to affordable housing preservation under HB 2002 (2017) are also funded with General Fund. A one-time General Fund investment of $5 million for the Greater Oregon Housing Accelerator pilot program continuation also is included in the Multi-Family Housing division of the Department.

Foreclosure counseling services will receive $1.5 million of General Fund support in the Department's Single-Family Housing section for 2019-21; this investment is not intended to be ongoing for the purpose of calculating current service level in future biennia. Similarly, $15 million in one-time General Fund was provided for various preservation and remediation efforts associated with manufactured housing.

Just over $900,000 General Fund partially supports position costs in the agency's Central Services and Bond and Debt Service divisions. General Fund also is used to pay debt service on bonds issued under article XI-Q of the Oregon constitution for affordable housing constructed under the Low-Income Fast Track (LIFT) housing program, and new Permanent Supportive Housing units which will be funded with bonds approved in 2019. Budgeted debt service payments on Article XI-Q bonds account for $28.6 million of HCSD's 2019-21 legislatively adopted General Fund appropriation, up from $9.1 million in 2017-19.

Lottery Funds in the amount of $21.8 million are provided for debt service payments on bonds issued in previous biennia for the following purposes:

- The Community Incentive Program, dating to 2001: $0.2 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: $4.6 million
- Debt service payments on a cumulative, multi-biennia total of $61.6 million in bonds to preserve affordable housing and manufactured home parks: $14.8 million

HCSD has numerous sources of Other Funds that include the following: proceeds from the sale of bonds ($550 million); mortgage and down payment assistance repayments ($322 million); Federal HUD contract administration fees for service ($6 million); Homeownership Stabilization Initiative fees for service ($3.9 million); loan, tax credit, and other fees for service ($20.1 million); the energy bill payment assistance charge ($40 million); a portion of the public purpose charge ($31.4 million); and special assessments on manufactured dwellings ($1.1 million). The passage of the document recording fee (HB 2436, 2009) adds an estimated $88.8 million, including $22 million expected to be dedicated to veterans' housing. Lottery bond proceeds are also part of the legislatively adopted budget and are budgeted as Other Funds; the 2019-21 legislatively approved budget includes bond proceeds that built on similar investments in previous biennia as follows: $25 million in bond proceeds for affordable housing preservation for 2019-21 biennium and $15 million for acquiring market rate (or "naturally occurring") affordable housing. The 2019 Legislatively Assembly also approved $150 million in XI-Q bonds for the LIFT program; cumulatively, the LIFT program now totals $270 million for affordable housing financing. The Legislature also approved the issuance of $50 million in XI-Q bonds to finance an expected 500 units of permanent supportive housing for chronically homeless Oregonians. The Permanent Supportive Housing program involves a cooperative effort with the Oregon Health Authority to provide funds for rental assistance payments (which will be transferred to HCSD) and supportive services.

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, transitional housing services and/or emergency payments of rents, mortgages, or utilities, and longer-term construction or planning expenses related to the Greater Oregon Housing Accelerator pilot program and manufactured home and park improvements. 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 2019-21 legislatively adopted budget assumes Federal Funds revenues as follows:

- Community Services Block Grant: $11.5 million
- Homeless Assistance Grants: $3.8 million
- HOME tenant-based rental assistance: $2.6 million
- Low Income Energy Assistance Program: $75.6 million
- Federal weatherization funding: $9.1 million
- HOME funds for housing development from Housing and Urban Development: $15.8 million
- National Trust Fund for housing development: $6.4 million

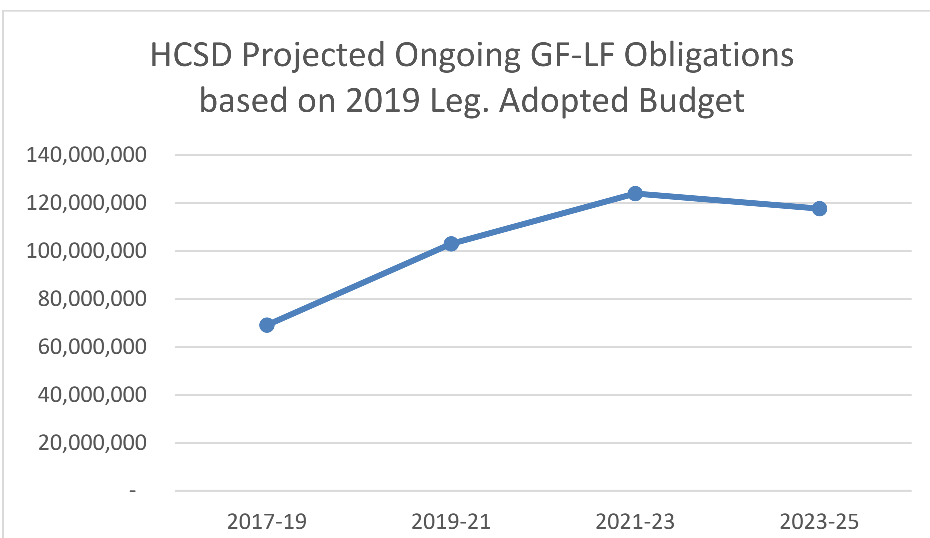
- Section 8 rent subsidy (Federal Funds Nonlimited): $152 million
- HUD 811 Project Rental Assistance Program grant: $1.1 million
- Neighborhood Stabilization Program $0.8 million

<u>Budget Environment</u>
Despite a strong Oregon economy, housing affordability in Oregon continues to be a significant issue. Builders have still not caught up with demand for additional units stemming from the recession and population increases. Historic investments in affordable housing have been made in the past two legislative sessions. The number of anticipated affordable multi-and single-family units created as a result of HCSD financed-investments in 2017-19 is estimated at 7,700 (not including purchase assistance for qualifying buyers), and the number of new units to be funded from 2019 legislative action is assumed to be in the neighborhood of 9,678. To put it into perspective, HCSD has $240 million in new debt-financed investment and $77.9 million in General Fund program/and operating resources for the 2019-21 biennium as a result of decisions made in the 2019 legislative session. This is an increase of 170% in bond-financed investments and 53% for General Fund program investments. More funding also means more applicants, more project reviews, and more ongoing compliance monitoring.

There are a number of challenges to HCSD being able to effectively deploy this additional funding in support of the agency's 5-year strategic plan. While new positions were approved to manage programs, evaluate impacts, and support the agency as a whole, the timely hiring of staff with adequate expertise in a tight labor market may be an issue. HCSD may hit its limitation for tax-exempt private activity bonds used to finance projects by the end of 2021, which could slow the production of additional housing units. Changes in interest rates may have an impact on the cost of borrowing for development partners, as will increases in construction costs. In addition, siting larger multi-family housing projects creates neighborhood concerns that can slow completion of projects.

While the Legislature has made these historic investments, local governments are also planning to deploy revenue from local bond approvals to increase the affordable housing supply. Metro approved a $653 million housing bond and the City of Portland approved a local housing bond of $258 million. Developers working on projects associated with this funding may seek low-income housing tax credits from HCSD to stretch local funding awards.

It may be unrealistic to expect similar levels of General Fund program investment and bond-financed projects in future biennia. Projected General Fund Debt Service and Lottery Funds Debt Service costs for 2019-21 are expected to climb by 215% and 36%, respectively, from 2017-19 levels and further escalate in 2021-23 when all the bonds are fully issued.



HCSD is seeing a gradual expansion of programs and responsibilities after efforts were made in 2015 to streamline its programs, procedures, and administrative processes in an effort to focus activities on those things providing the greatest return on investment. The Department's primary focus has traditionally been the financing of affordable housing and the deployment of longstanding program funding to local partners to alleviate poverty. New programs such as the Greater Oregon Housing Accelerator, regional housing needs analysis and data sharing responsibilities, manufactured park loan program, and new collaborations to pilot the use of additional TANF funds for housing and homelessness prevention for families with children represent forays into non-traditional areas of policy and program administration.

Legislatively Adopted Budget

For the 2019-21 biennium, the Legislature again increased its investment in affordable housing to historic levels in an effort to address the need for affordable housing. The 2019-21 legislatively adopted budget for HCSD is $2,017,998,409, a 46.5% increase from the 2017-19 legislatively approved budget.

New investments and ongoing programs will result in an estimated 6,492 units of affordable housing, preserve approximately 1326 existing units – including manufactured homes – as affordable, assist 138,449 Oregonians who are homeless or at risk of becoming homeless, and provide homeownership opportunities for an estimated 3,186 median-to-low income Oregonians.

The legislatively adopted budget contains standard rate adjustments related to state government service charges and employee costs common to all state agencies in addition to the adjustments detailed in the following sections.

Housing Stabilization

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	21,227,856	47,922,481	12,794,151	54,781,920
Lottery Funds	--	350,000	--	--
Other Funds	88,540,662	104,011,751	84,481,327	104,793,054
Federal Funds	97,364,004	98,803,016	102,696,148	101,688,985
Federal Funds (NL)	119,200,845	133,265,609	133,231,628	152,131,628
Total Funds	**326,333,367**	**384,352,857**	**333,203,254**	**413,395,587**
Positions	29	31	32	47
FTE	28.25	29.50	30.50	45.67

Program Description

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 provides for payments to landlords in the event that their property is damaged, 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, street outreach, transitional housing, and prevention activities such as emergency assistance payments, and some counseling/casework 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. The majority of Federal Funds for homelessness assistance in Oregon are provided directly to Continuum of Care providers and are directed to not-for-profits for housing, mental health, and other services to holistically address homelessness in rural counties.

- Community Services Block Grant (CSBG) – Funded by the federal Department of Health and Human Services, CSBGs 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 (IDA) – 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, 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.
- 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 are budgeted as Federal Funds Nonlimited.

Legislatively Adopted Budget

2019-21 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 2019-21 Leg. Adopted
Emergency Housing Assistance (EHA)	27,999,965	5,000,000	32,999,965
State Homeless Assistance Program (SHAP)	12,007,455	-	12,007,455
Elderly Rental Assistance	1,463,580	-	1,463,580
Housing Choice Landlord Guarantee	310,920	-	310,920
Rental Market Resources (HB 2006)	-	3,000,000	3,000,000
Shelter Expansion and Capacity	-	5,000,000	5,000,000

The 2019-21 budget includes funding and direction that, for purposes of calculating ongoing costs in future biennia, funding amounts for EHA and SHAP were to be set at $28 million and $12 million, respectively. In addition to these amounts, another $5 million in one-time funding was provided for EHA. Two associated positions were also approved to ensure accountability and data driven decisions associated with the ongoing level of additional funds, and will be funded with administrative allowances on the General Fund approved for the programs.

The passage of House Bill 2006 resulted in a $3 million General Fund appropriation to HCSD for the 2019-21 biennium for grants to support or develop programs that help people to obtain and retain housing. Examples include tenant education programs, technology solutions that help low-income people find housing, and fair housing training for tenants and landlords. One limited duration position was approved to support this effort. The bill also appropriated $3 million to the Department of Justice for assistance to victims of domestic violence and sexual assault who have housing needs.

The agency's budget includes 2019-21 support of $5 million for projects and program administration to strengthen and support shelter capacity in high need areas. HCSD will use results from its Statewide Shelter Survey to guide funding awards. One additional limited duration position was approved to support this effort.

Other Funds expenditure limitation was increased by $1.6 million to support seven additional permanent positions and add months to an existing position to enable the agency to better deliver services, work with stakeholders, and monitor outcomes related to its housing stabilization programs. Further Other Funds expenditure limitation was approved to support a policy analyst position that will divide time between identifying weatherization recipients with elevated health risks and matching appropriate funding for remediation, and designing and managing a program to replace aging, unsafe, or inefficient manufactured housing.

Two new programs were approved that resulted in additional Other Funds expenditure limitation and position authority for the Housing stabilization program. HB 5050, the omnibus 2019 budget reconciliation bill, contained these changes. The first new program was rental assistance payment and administration, totaling $2.9 million transferred from the Oregon Health Authority and associated with an estimated 200 units of permanent supportive housing expected to be completed by the end of the biennium, targeted toward populations that experience chronic homelessness; two additional positions are associated with administering the rental assistance payments on an ongoing basis. The second new program approved as part of HB 5050 is a pilot program that utilizes $15.5 million in Temporary Assistance for Needy Families (TANF) dollars transferred from the Department of Human Services. The program is intended to allow for coalitions of service providers to provide extended financial supports to families with children who are at risk of becoming homeless. One position and Other Funds expenditure limitation was approved in HB 5050 for HCSD's management of this effort, while the policy was outlined in HB 2032.

Multifamily Rental Housing Programs

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	169,351	1,048,109	923,598	5,652,873
Lottery Funds	--	760,000	--	--
Other Funds	48,821,505	110,012,924	150,822,922	201,380,116
Other Funds (NL)	340,809	1,850,000	1,350,000	1,350,000
Federal Funds	12,458,110	20,644,455	21,406,327	21,402,790
Total Funds	**61,789,775**	**134,315,488**	**174,502,847**	**229,785,779**
Positions	40	53	48	70
FTE	39.17	44.93	47.50	68.41

In 2017-19, Lottery Funds were used to develop a veterans' housing project – Ash Creek Terrace.

Program Description

HCSD assists in making available housing options for low-income and fragile Oregonians. The agency promotes affordable housing development and rehabilitation of existing rental housing through the issuance of tax-exempt bonds, provision of conduit financing and loan programs, and administration of three housing tax credit programs. Several of the grants and tax credits are allocated through the semi-annual, competitive Notice of Funding Availability. These resources are one piece of an often-complex financing plan used by affordable housing developers, often in conjunction with other resources which may include federal grants, foundation monies, loans, and private-sector investment.

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 2019-21 legislatively adopted budget is a 71.1% total funds increase from the 2017-19 legislatively approved budget.

General Fund in the amount of $5 million was allocated to fund the continuation through 2019-21 of a pilot program begun in the 2017-19 biennium. The Greater Oregon Rural Housing Accelerator will fund an estimated dozen "collaborative partnerships" between employers, developers, and local government in small towns and rural communities. The program is focused on awarding funds to develop housing, further technical assistance and pre-development work in communities that are not prepared to meet their demonstrated workforce housing needs, and prioritizing projects involving an employer or developer willing to invest in workforce housing. Examples of eligible investments may include down payment assistance, land acquisition funding, technical assistance funding, and investments in housing developments. One limited duration position is included to oversee project selection and investment, and $4.7 million will be spent as Other Funds to ensure that projects with a completion horizon exceeding June 30, 2021 are not disrupted.

Other Funds expenditure limitation was increased to accommodate additional expenditures as follows:

- $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.
- $15 million in one-time Other Funds expenditure limitation is associated with lottery bond proceeds related to the acquisition of market-rate "naturally occurring" affordable housing, which will be rehabbed as needed and conferred with future affordability restrictions.
- Expanding the Lift Program (a further $150 million in Article XI-Q bonds was approved by the 2019 Legislative Assembly) will drive the need for two additional positions (1.50 FTE) to evaluate funding applications and monitor awards. These position costs total $345,594 and will be paid with application and project fees.
- $2.4 million and 11.50 FTE were included to better deliver services, work with stakeholders, and enhance accountability. The additional staffing needs are driven by the increase in program funding approved since 2017. Additional program funding means more applications that need to be evaluated, more awards and grant agreements, and more project approvals that require ongoing compliance monitoring.
- $1.5 million for Attorney general expenses that are increasing due to an increase in the number of multifamily housing transactions requiring legal review;
- $1.2 million and 6.16 FTE in response to new federal inspection requirements for low income multi-family units. These positions are supported by fees assessed on property owners when developments receive financing.
- Ongoing multi-family housing finance programs will comprise the following amounts of Other Fund expenditure limitation in 2019-21:
  - $86.2 million – General Housing Assistance Program financing (comprised primarily of document recording fee revenue)
  - $19.2 million – Housing Development Grant Program (comprised of Public Purpose Charge revenue)
  - $1.1 million – Manufactured Communities Resource Center program (funded by assessments on manufactured homes and park registration fees)
  - $13.9 million – tax credit and miscellaneous program awards (funded by program fees, loan repayments, and interest earnings)
  - Carry-over from lottery bond proceeds issued in previous biennia but not yet fully expended.

The majority of Federal Funds expenditure limitation in the Multi-Family Rental Housing Program division is comprised of $15.1 million from the federal Housing and Urban Development agency for the HOME investment Partnership Program, which provides a federal source of funding for low-income housing development. In addition, $6.3 million of Federal Funds expenditure limitation is attributable to the National Housing Trust Fund program as a source of funding affordable housing preservation and rehabilitation. The balance of Federal Funds expenditure limitation is associated with Section 811 Project-based rental assistance.

Expenditure limitation and position authority is also included to accommodate the passage of SB 586 (2019). The bill made mediation in manufactured home parks between owners and tenants mandatory, increased registration fees, and added marinas to agency oversight in the 2021-23 biennium. One position (0.75 FTE) and expenditure limitation was added for oversight of these new provisions.

Single Family Housing

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,905,351	1,300,000	--	16,500,000
Other Funds	3,832,221	8,674,717	13,100,666	18,980,559
Federal Funds	376,623	721,901	749,110	749,032
Total Funds	**7,114,195**	**10,696,618**	**13,849,776**	**36,229,591**
Positions	4	8	8	12
FTE	4.00	6.96	8.00	11.50

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. Also included are counseling services to prospective homebuyers and homeowners, including those facing foreclosure.

Legislatively Approved Budget

The 2019-21 legislatively adopted budget for single family housing programs is a 238.7% increase 2017-19 legislatively approved budget.

General Fund supports investments not assumed to be ongoing in future biennia, comprised of $1.5 million for homeownership counseling services. HCSD will administer these funds pursuant to eligibility and payment rules established by the Homeownership Assistance Program and the Oregon Foreclosure Avoidance Program, created in response to high rates of foreclosure experienced during and following the most recent recession. Likewise, a one-time General Fund investment for 2019-21 of $15 million was appropriated for manufactured park related investments due to the passage of HB 2896. The legislation specifies that $9.5 million will be used to seed a loan program for park preservation and affordability; $2.5 million will allow for manufactured dwelling replacement, decommissioning, and expenses of an advisory committee; and $3 million will be utilized for infrastructure development at a manufactured dwelling park in Springfield, Oregon.

Of the $19 million in Other Funds expenditures, $12.2 million is attributable to document recording fee-financed down payment assistance to low -and very low-income families and individuals, as well as support for housing centers, counseling, and veteran home rehab and repair. Another $5.5 million represents a transfer of a portion of funds resulting from the passage of HB 2896, which will be spent as Other Funds.

The budget provides Other Funds expenditure limitation for a limited duration manager of this division (previously, it was managed by the same team responsible for the Multi-Family Rental Housing division; the need for permanency will be reevaluated). Other Funds expenditure limitation is also included for 1.00 FTE in this division to underwrite loans for a new down payment lending assistance product created by the Department. For the new lending product, HCSD will originate mortgages that can offer home buyers a prospective down payment between zero and five percent; in exchange, the homebuyer will pay a slightly higher interest rate. The down payment assistance amount will be provided as a zero percent interest loan, due on sale of the home and payable to HCSD. The program will leverage private sector capital, created through pools of securities backed by the mortgage loans. Financial market investors will pay a premium for the federally guaranteed loans and an expected favorable rate of return, which in turn covers program administration and the source of the down payment assistance. Financial oversight of this program consists of another position that is budgeted in the Central Services Division of the agency.

Homeownership Stabilization Initiative

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,855,768	4,072,991	--	3,885,174
Total Funds	**2,855,768**	**4,072,991**	**--**	**3,885,174**
Positions	27	25	--	20
FTE	16.17	21.43	--	17.25

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. This was followed by a further allocation in 2015 of $95.4 million. The funding is required to be fully expended by December 2021.

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 first calendar quarter of 2019, the program had provided $264 million in direct assistance to 33,550 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 Oregon would receive another $95.4 million. This announcement required HCSD to ramp the program back up. The 2019-21 legislatively adopted budget authorizes Other Funds expenditure limitation of $3.9 million, along with 20 limited duration positions (17.25 FTE). Funding is required to be fully expended by December 2021.

Central Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,026,396	625,920	470,939	895,515
Lottery Funds	--	390,000	--	--
Other Funds	12,987,250	11,799,107	13,103,667	17,687,050
Federal Funds	7,994,907	2,647,839	2,842,515	2,818,218
Total Funds	**24,008,553**	**15,462,866**	**16,417,121**	**21,400,783**
Positions	45	48	44	68
FTE	44.06	46.80	44.00	67.38

Program Description
The Central Services program includes the administrative functions of the department, and contains four 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 this unit.
- Chief Operating Office – Facilities management, information services, and human resources services are also included in this division.

Other Funds and Federal Funds are derived from each program contributing a share pursuant to a federally approved cost allocation plan.

Legislatively Adopted Budget

The 2019-21 Legislatively Adopted budget for Central Services includes significant additional staffing resources. The approved positions support the agency as a whole (as opposed to program-specific oversight), providing centralized functions in response to growth of programmatic resources since the 2013-15 biennium. While the agency had received some additional program staff in previous biennia to administer programmatic funds, it had not received commensurate central services/support positions. A couple of position reclassifications were approved and nineteen permanent and two limited duration positions (20.50 FTE) were added in 2019-21 that fall into the category of "catch up," supported by Other Funds. Functions that were augmented include executive and administrative support, an internal auditor, procurement and contracts professionals, human resource specialists, information systems, public and legislative affairs support, a facilities specialist, information systems support, policy and program support related to financial services, and research capabilities.

A Fiscal Analyst 3 position associated with the launching and sustaining the new down payment assistance lending product described above was approved and will be funded through the new program's loan origination proceeds.

Legislation that passed in 2019 also contributed to increases in position authority. HB 2003's directive to develop a methodology for a regional housing needs analysis which includes estimates of housing necessary to accommodate growth in cities and regions throughout the state resulted in $655,274 General fund being appropriated to HCSD to fund a permanent Economist 3 position and a limited duration management position for assistance in conducting and managing the necessary research efforts, as well as for Services and Supplies to design or procure needed software and analytic services. Manufactured home initiatives that will be undertaken due to the passage of HB 2896 require an additional financial accounting position to service loans over the life of the loan terms ($123,771 Other Funds and 0.50 FTE).

Bond Activities and Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	9,006,521	18,804,051	28,585,969
Lottery Funds	11,676,461	16,007,282	21,868,790	21,789,335
Other Funds	2,368,702	5,925,758	4,568,437	7,647,567
Other Funds (NL)	721,110,424	729,999,381	815,638,340	1,055,318,660
Total Funds	**290,974,053**	**760,998,942**	**860,879,618**	**1,113,341,531**
Positions	6	6	6	7
FTE	6.00	6.00	6.00	6.50

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 2019-21 Legislature approved record levels of debt issuance to fund affordable housing for low-income Oregonians. As in 2017-19, $25 million in Lottery Bonds will be issued for preservation of affordable housing. 2019-21 approved issuances of XI-Q bonds for the LIFT program dwarfed previous biennia, totaling $150 million. A new program was authorized with XI-Q bonds to construct permanent supportive housing for populations that traditionally experience chronic homelessness; services and rental assistance payments will be paid with funds transferred from the Oregon Health Authority. Lottery bonds will also be issued for the purchase of market-rate "naturally occurring affordable housing" which will be rehabilitated as necessary and given affordability restrictions.

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	$61.6 million	$14.8 million (LF)
Preservation 2019-21	$25.0 million	$0 in 2019-21
"Naturally Occurring" Affordable Housing	$15 million	$0 in 2019-21
Mental Health Housing 2015-17	$20.0 million	$4.7 million (LF)
Community Incentive Fund 2001-03	$22.8 million	$0.2 million (LF)
Housing PLUS 2007-09	$15.8 million	$2.1 million (LF)
LIFT 2015-17	$40.0 million	$17.2 million (GF)
LIFT 2017-19	$80.0 million	$3.4 million (GF)
Permanent Supportive Housing	$50 million	$4.9 million GF
Total		$21.8 million LF $25.5 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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	40,000,000	80,000,000	--	200,000,000
Total Funds	**40,000,000**	**80,000,000**	**--**	**200,000,000**

Legislatively Adopted Budget

This program provides expenditure limitation for a period of six years (expires June 30, 2025) 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. 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 rents, and establishing requirements related to leases, use of reserves, and terms of loan satisfaction.

The estimated financed cost per unit for the LIFT-financed projects continues to rise. Back in 2015, HCSD estimated that 965 units could be financed with $40 million in bond proceeds (for an estimated per unit amount of $41,451). The number of units from $80 million in bonds approved for 2017 was 1,406 (driving a per unit average of $56,899). For the $150 million in 2019 approved XI-Q bond proceeds, HCSD estimates being able to produce approximately 2,168 units; put another way, an 87% increase in funding is estimated to produce 44.5% more units, compared to the 2017-19 biennium.

The Legislature approved the use of Article XI-Q bonds for new “permanent supportive housing.” Permanent supportive housing provides service-enriched housing affordable at extremely low incomes to serve very vulnerable populations. In this case, $50 million in bonds is authorized to help finance an estimated 500 units in total, targeted at those who are already homeless or most likely to become homeless (e.g. adults coming out of incarceration, those with severe or persistent mental health or addiction issues, transition-aged youth in the justice or foster care systems, etc.). Two hundred units are targeted for completion by the end of the 2019-21 biennium. The bonds will be used to finance construction of the units, whereas the services will be funded from budgeted dollars at the Oregon Health Authority. Rental assistance payments will be administered by the Housing and Community Services Department (see related discussion under Housing Stabilization, above), and funding for rental assistance will be transferred from Oregon Health Authority and spent at HCSD as Other Funds. The Oregon Health Authority estimates that commitments for supportive services to 500 units of completed housing in 2021-23 will total $8 million, while rental assistance costs will be $10 million in that biennium.

DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	12,954,681	8,568,114	10,275,406	8,352,877
Lottery Funds	--	15,400,349	14,779,342	20,559,847
Other Funds	79,801,323	116,893,607	103,405,833	108,523,336
Other Funds (NL)	235,863,557	447,546,159	408,779,089	408,779,089
Federal Funds	3,403,376	7,347,138	1,000,000	1,525,000
Total Funds	**$332,022,937**	**$595,755,367**	**$538,239,670**	**$547,740,149**
Positions	88	100	97	105
FTE	87.55	97.13	96.71	104.47

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 supported by the agency's core operations: the Veterans' Loan Program, the Veterans' Services Program, and Aging Veteran Services, which includes the two Veterans' Homes. 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 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. Aging Veteran Services provides oversight of the two skilled-nursing and memory care facilities in The Dalles and Lebanon, expertise in aging veterans' benefits and services, and conservatorship and representative payee services. General Fund, Lottery Funds, and Other Funds generated from conservatorship fees support Aging Veteran Services. 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 and refundings ($245 million), veteran loan and contract-related repayments ($95 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 debt service. The Home Loan Program's administrative costs are Other Funds Limited in the budget, while direct loan activity expenditures (i.e., loans made to veterans, pass-through payments made on behalf of borrowers, and debt service 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 also 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 $21.9 million for the 2019-21 biennium, based on the Office of Economic Analysis' May 2019 revenue forecast, with an additional $4.9 million beginning balance in the Veterans' Services Fund, for total 2019-21 lottery resources of $26.8 million. Lottery revenues of $20.6 million will be allocated to the Department for the Lottery Funds expenditure limitation included in the Department's budget and an additional $3.3 million allocated for veterans' programs and services in other agencies, with an estimated ending balance of $3 million 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. General Fund and Lottery Funds also support aging veteran services, including conservatorship and representative services; the veteran volunteer program; and outreach to aging veterans which have historically been part of the Veterans' Services Program, but were established as a separate program area in the 2019-21 budget. Lottery Funds directly support a veterans' crisis support and suicide prevention telephone hotline, tribal veteran representative programs and partnerships, veterans' services grant fund, veterans' health care transportation grants, 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 (7.0% of the protected person's income). Conservatorship fee income in the 2019-21 biennium is estimated to total approximately $900,000.

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 $96.1 million in the 2019-21 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 and the Charitable Check Off program. ODVA projects a 2019-21 beginning balance of $24.1 million in the Veterans' Home Program. Cash reserves will be used during the biennium for working capital, capital improvements, and contingencies.

Budget Environment

An estimated 303,689 veterans live in Oregon who have served over the following five eras: World War II (3.7%), Korea (7.2%), Vietnam (37.5%), Gulf/Post 9-11 (28.8%), and during times of peace (22.8%). 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, including special advocacy for women, LGBTQ, incarcerated, student, and tribal veterans. 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). Oregon is one of five states, including Alaska, California, Texas, and Wisconsin, that are grandfathered under federal tax law to offer a state veteran home loan program. 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. While more veterans are eligible, and the product to serve them is restricted, reserves from the loan program have been used in prior biennia to subsidize 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. 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 direct veterans' services and administration costs being supported by home loan revenues were shifted to Lottery Funds in the 2017-19 budget to help strengthen, stabilize, and sustain the Home Loan Program for future generations of veterans.

The 2008 recession and housing crisis, low conventional mortgage rates, and the inability to refinance significantly decreased ODVA's home loan originations, reducing the outstanding portfolio to a low of $197.3 million at June 30, 2013. However, as the economy has recovered, the demand for veteran home loans has increased. Loan originations in fiscal year 2018 totaled $76.9 million and represent a 38.6% increase over the average annual loan volume of $55.5 million between 2013 and 2017. However, this growth continues to be limited by low housing inventory and rising prices. ODVA also continues to focus on increasing lending partners, including mortgage bankers and brokers that provide the Department's loan supply. As of June 30, 2018, the loan portfolio was approximately 1,877 loans totaling $331.7 million.

The Dalles Veterans' Home was built in 1997 and the Lebanon Veterans' Home was opened in 2014. Expenditures for the Oregon Veterans' Homes relate to the cost of providing skilled-nursing and memory-related care, with personnel comprising approximately 70% of total operating costs. 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. Retaining affordability continues to be a challenge as medical costs increase at a rate faster than the federal VA pension and Social Security income of most residents. As the facilities age, maintenance and capital improvements are necessary and the Department leverages available U.S. Department of Veterans Affairs grants for renovations and upgrades.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Department of Veterans' Affairs is $547.7 million total funds and 105 positions (104.47 FTE), which is an 8.1% decrease from the 2017-19 legislatively approved budget. Other Funds Nonlimited of $408.8 million for the Veterans' Loan program bond-related activities, debt service, and loans to borrowers make up 74.6% of the total budget. Excluding Nonlimited funds, the 2019-21 legislatively adopted budget is a 6.2% decrease from the 2017-19 legislatively approved budget. The decrease is primarily attributable to reductions in Other and Federal Funds limitation to phase-out capital construction projects approved in the 2017-19 biennium. Lottery Funds expenditure limitation of $20.6 million, available through the passage of Measure 96, is included in the budget and represents a 33.5% increase over the prior biennium. The budget also includes $8.4 million of General Fund, which consists of $8 million for veterans' services and $378,020 for debt service on outstanding bonds.

Loan Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	12,160,347	16,626,806	16,297,237	17,268,255
Other Funds (NL)	235,863,557	447,546,159	408,779,089	408,779,089
Total Funds	**$248,023,904**	**$464,172,965**	**$425,076,326**	**$426,047,344**
Positions	51	46	46	47
FTE	50.89	46.00	45.79	46.79

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 336,000 home and farm loans with a principal amount of over $8 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 2019-21 legislatively adopted budget of $426 million Other Funds is an 8.2% decrease from the 2017-19 legislatively approved budget. Other Funds Nonlimited of $408.8 million for loans to veterans ($180 million), expenditures related to making loans and issuing bonds ($13 million), and debt service ($215.8 million) make up 95.9% of the program budget and represents an 8.6% decrease from the 2017-19 legislatively approved budget. The decrease is primarily attributable to limitation that was administratively added after development of the 2019-21 current service level budget to accommodate increased veterans' home loan originations in the 2017-19 biennium. Limited Other Funds of $17.3 million for loan services and ODVA operations is a 3.9% increase from the 2017-19 legislatively approved budget. The following Other Funds increases were approved:

- $500,000 on a one-time basis to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding for this project is also included in the Veterans' Services and Aging Veteran Services programs for total 2019-21 renovation costs of $975,000.
- $250,000 on a one-time basis to purchase and install a home loan system that combines loan origination and servicing functions into one application, creating efficiencies and reducing errors. ODVA also requested and received approval for this project in the 2017-19 legislatively approved budget; however, a determination was made that further development of the business requirements was required prior to implementation.
- $227,517 and one position (1.00 FTE) to increase the number of home loans, including those in underserved markets. A Business Development Representative position is established to identify new contractual lending partners, including mortgage brokers and lenders, enhance business relationships with existing clients, and provide training and education to lenders and real estate professionals.
- $120,000 for agency-wide technology investments that will enable the Department to accommodate enterprise information security policy changes, expand network capability, consolidate database solutions, and modernize application support and services. Additional funding for this investment is also included in the Aging Veteran Services program.

Veterans' Services Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,335,744	7,550,791	7,469,372	7,424,337
Lottery Funds	--	15,400,349	12,488,911	17,358,524
Other Funds	969,206	107,623	--	4,164,332
Federal Funds	100,485	1,000,000	1,000,000	1,525,000
Total Funds	**$11,405,435**	**$24,058,763**	**$20,958,283**	**$30,472,193**
Positions	32	49	35	41
FTE	31.66	46.13	34.92	40.68

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 and their dependents/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 2018, ODVA received 11,997 new powers of attorney, and over 25,000 new claims were filed in fiscal years 2017 and 2018. This program also provides training, certification, and accreditation for county and state VSOs.
- County Veteran Service Officers Program (CVSOs) – Pass-through funding to counties 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. Historically, 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 Marion County opened 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, National Association of Black Veterans, American Legion, and Veterans of Foreign Wars participate in this funding. In prior biennia, the Military Order of the Purple Heart also received funding, but recently determined that it will not continue to provide a Veteran Service Officer in Portland through its National Service Program.

- Tribal Veteran Representatives Program – Pass-through funding to support Tribal Veteran Representatives Service Offices to expand and enhance services for tribal veterans to obtain federal VA benefits.
- 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.
- Grant Programs and 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. Grant programs include the Veteran Services Grant Fund, Campus Veteran Grant Program, and federal Highly Rural Transportation Grant (HRTG). During the 2019 session, funding was also approved for a Veterans' Healthcare Transportation Grant Program that expands transportation services grants for veteran healthcare access in rural counties and the Veteran Education Bridge Grant Program that will provide grants to veterans to further their education.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $30.5 million total funds represents a 26.7% increase from the 2017-19 legislatively approved budget. General Fund support for veterans' services is a 1.7% decrease from the prior biennium, which reflects the transfer of $556,594 for aging veteran services functions to a new budgeted program area. Lottery Funds expenditure limitation of $17.4 million for the Veterans' Services Program represents a 12.7% increase from the 2017-19 legislatively adopted budget. This increase is net of a $2.3 million reduction to reflect the transfer of aging veteran services expenditures and associated positions (11.00 FTE) to the Aging Veteran Services program. Specific investments with lottery dollars dedicated by Measure 96 to expand services to veterans include:

- $1 million to renew funding, on a one-time basis, for the Campus Veteran Grant Program for grants to Oregon community colleges and public universities to expand and enhance veteran programs on college campuses that help veterans successfully transition from military service to college life, succeed in college, complete education goals, and transition from college to the workforce and community.
- $1 million for a one-time grant to the YMCA of Marion and Polk Counties to construct veterans' affordable housing in Salem. An additional $4 million of lottery bond proceeds were also approved for a total grant to the YMCA of $5 million.
- $500,000 to support Tribal Veteran Representative programs and partnerships, including the addition of a Tribal Veteran Coordinator position (1.00 FTE) to serve as a liaison between ODVA and Tribal Veteran Offices and assist with connecting tribal veterans to federal VA services. The approved amount includes $200,000 of pass-through funding to Tribal Veteran Offices to expand and enhance their programs and services.
- $500,000 to establish a new Veterans' Healthcare Transportation Grant Program that will expand existing federally funded Highly Rural Transportation Grants for veterans' healthcare transportation services in rural counties. Initial funding for the new program is approved as one-time.
- $500,000 to increase support for the Veteran Services Grant Fund, on a one-time basis, for total 2019-21 funding of $1.1 million, expanding the number and amount of grants available to community partners for services and programs that benefit veterans, including mental and physical healthcare, housing security, employment opportunities, education, and transportation accessibility.
- $447,719 to establish the Veteran Educational Bridge Grant Program that will provide grants of up to $5,000 to veterans who are pursuing and enrolled in an approved course of study, eligible to receive federal financial assistance based on prior service in the U.S. Armed Forces, and unable to complete a degree program within the expected completion period due to course availability. Approved funding includes $300,000 for grants and $147,719 for the establishment of a limited duration Program Analyst 1 position (0.88 FTE) to conduct outreach and administer the program (HB 2201, 2019).

- $354,708 to increase support for the National Service Organizations (NSO), bringing total pass-through funding to $600,000. Approved funding is to expand the work of NSOs to provide critical services to veterans, including filing disability compensation benefit claims and increasing availability of local veteran services.
- $237,500, on a one-time basis, to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding is also included in the Home Loan and Aging Veteran Services programs for total 2019-21 renovation costs of $975,000.
- $145,930, plus an additional $525,000 Federal Funds expenditure limitation, to establish three positions (3.00 FTE) that will allow the agency to serve as the U.S. Department of Veterans Affairs (USDVA) State Approving Agency (SAA) for veterans' education programs. USDVA oversees the administration of GI Bill education benefits through annual performance contracts with designated SAAs. ODVA has requested to be designated as Oregon SAA beginning October 1, 2019, and funding provides ODVA with the necessary resources to assume the responsibilities.
- $107,729, plus an additional $107,729 Other Funds, to establish an Internal Auditor 3 position (0.88 FTE) that will provide ODVA with an effective internal audit function, allowing the agency to examine its program and services for effectiveness, efficiency, and compliance with applicable rules and regulations.
- An additional $95,000 was also provided to enhance training for state, county, tribal, and NSO veteran service officers and cover costs incurred to administer grant programs, including providing state and regional training conferences to share best practices, innovations, and strategic planning.

There is a significant increase in Other Funds in the 2019-21 veterans' services budget over the prior biennium due to the addition of $4.1 million in expenditure limitation to accommodate distribution of lottery bond proceeds for the YMCA veterans' affordable housing project and associated bond costs of issuance. Federal Funds expenditures increased 52.5% over the 2017-19 veterans' service budget for costs associated with ODVA serving as the USDVA State Approving Agency for veterans' education programs beginning October 1, 2019. SAAs approve education and training programs that are eligible to receive GI benefits and provide technical assistance and outreach to schools and veterans. USDVA reimburses SAAs for direct costs incurred to perform SAA functions, including salaries and benefits, travel, and other administrative expenses, up to a maximum annual contract amount (approximately $300,000 for Oregon). Prior to October 1, 2018, the Higher Education Coordinating Commission (HECC) served as the SAA for Oregon; however, USDVA did not renew the annual contract with HECC for the 2019 federal fiscal year.

The 2019-21 legislatively adopted budget funds ongoing veterans' services programs at the following levels:
- Statewide Veteran Services: $5,319,867 General Fund, $5,133,131 Lottery Funds, 37.68 FTE
- State Approving Agency: $145,930 Lottery Funds, $525,000 Federal Funds, 3.00 FTE
- County Veterans' Service Officers: $1,874,183 General Fund, $7,166,509 Lottery Funds
- National Service Organizations: $122,646 General Fund, $477,354 Lottery Funds
- Tribal Veteran Offices: $200,000 Lottery Funds
- Emergency Assistance: $107,641 General Fund
- Partnerships:
  - Campus Veteran Resource Centers grant program: $1,000,000 Lottery Funds
  - Veterans' Services Grant Fund: $1,070,900 Lottery Funds
  - Suicide Prevention Hotline: $364,700 Lottery Funds
  - Transportation Grants: $500,000 Lottery Funds, $1,000,000 Federal Funds
  - Veteran Educational Bridge Grants: $300,000 Lottery Funds

Oregon Veterans' Home Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,618,937	1,017,323	2,249,440	378,020
Other Funds	64,195,794	83,791,488	87,108,596	87,090,749
Total Funds	**$66,814,731**	**$84,808,811**	**$89,358,036**	**$87,468,769**
Positions	5	5	5	5
FTE	5.00	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, 2018, The Dalles Veterans' Home had an occupancy rate of 80%. Occupancy was intentionally lowered during the 2017-19 biennium to complete interior renovations. The Dalles Veterans' Home has been in operation for over 20 years and ongoing repairs, maintenance, and capital renewal are necessary to keep the facility in good operating condition. Health and safety improvements were completed in 2011-13, and interior renovations were completed in the 2017-19 biennium through a federal grant approved in 2015-17. ODVA also received approval and submitted a construction grant application to USDVA for exterior upgrades to the facility in 2018.

A second Veteran's Home in Lebanon opened in 2014. The Edward C. Allworth Veterans' Home has capacity for 154 residents. 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, 2018, the Lebanon Veterans' Home was at 97% 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 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 $87.5 million is a 3.1% increase over the 2017-19 legislatively approved budget. General Fund of $378,020 is appropriated for debt service on Article XI-Q bonds issued in 2019 to construct a new educational building to train nursing staff at The Dalles Veterans' Home and to build a parking lot at the Lebanon Veterans' Home. Outstanding debt service on Article XI-Q bonds issued in 2013 to fund a shortfall in the state/local share of the Lebanon home construction costs was paid off in 2017-19, resulting in a General Fund decrease of 62.8% from the prior biennium. The increase in Other Funds expenditure limitation is attributable to inflation, net of a $310,000 decrease to phase out costs of issuing bonds in the 2017-19 biennium.

Aging Veteran Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	556,594	550,520
Lottery Funds	--	--	2,290,431	3,201,323
Total Funds	**--**	**--**	**$2,847,025**	**$3,751,843**
Positions	--	--	11	12
FTE	--	--	11.00	12.00

Program Description

The Aging Veteran Services Program provides expertise in aging veterans' benefits and services, oversees the veteran volunteer program to coordinate a statewide network of volunteers to locate and assist veterans, provides outreach and education to partner agencies related to benefits and assistance for aging veterans, and files claims for veterans residing in ODVA's veterans' homes or receiving conservatorship and representative payee services. The Program 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 serve as trust officers, file 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, 2018, ODVA had 155 Conservatorship clients and 143 Representative Payee clients. In prior biennia, Aging Veteran Services was budgeted as part of the Veterans' Services Program. Aging Veteran Services was established as a new program area to reflect the needs of the growing aging veteran population and provide additional transparency in budgeted program expenditures.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $3.8 million reflects the transfer of $2.8 million and associated positions (11.00 FTE) for aging veteran service functions from the Veterans' Services Program to the Aging Veteran Services Program. The following Lottery Funds investments were also approved:

- $400,000 to continue replacement of the conservatorship system, which enables court-appointed ODVA conservators and trust officers to effectively and efficiently deliver conservatorship and representative payee services. ODVA also requested and received $600,000 for this project in the 2017-19 budget and one-time funding in 2019-21 budget is approved for additional project management, business analysis, system integration, development, and implementation costs.
- $237,500, on a one-time basis, to continue the refresh of the Department of Veterans' Affairs' office building and complete renovation of the second floor, including replacing the carpet and painting the walls. Additional funding for this project is also included in the Home Loan and Veterans' Services programs for total 2019-21 renovation costs of $975,000.
- $172,753 and one position (1.00 FTE) for conservatorship and representative payee services. A Representative Payee position is established to accommodate increased caseload, allowing ODVA to better serve existing clients and accept new clients. The amount approved also includes $20,000 for statutorily mandated initial and continuing education and training required for conservatorship and representative payee staff certification.
- $120,000 for agency-wide technology investments that will enable the Department to accommodate enterprise information security policy changes, expand network capability, consolidate database solutions, and modernize application support and services. Additional funding for this investment is also included in the Home Loan program.

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,475,976	16,367,690	--	--
Federal Funds	3,302,891	6,347,138	--	--
Total Funds	**5,778,867**	**$22,714,828**	**--**	**--**

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget does not include any expenditure limitation for new capital construction projects. Other Funds and Federal Funds capital construction expenditure limitation of $22.7 million was included in the 2017-19 legislatively approved budget for multiple Veterans' Home capital projects. Federal Funds capital construction limitation totaling $3.9 million was provided for a U.S. Department of Veterans Affairs (USDVA) construction grant to complete exterior upgrades to The Dalles Veterans' Home, including replacing the roof, siding, and fascia; adding airlock areas near exterior doors; upgrading exterior garden areas; replacing an industrial water heater; and replacing interior window sills. Federal Funds capital construction limitation of $2.4 million was also provided for a second USDVA construction grant to upgrade the Lebanon Veterans' Home, including addition of a memory-care activity room; construction of a multi-purpose building and storage room; and upgrading the heating and cooling system. Other Funds capital construction limitation of $3.4 million, funded with Veterans' Home Program cash reserves, was approved for the two federal grants match requirements.

The 2017-19 budget also included Other Funds capital construction limitation 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 for the Lebanon Veterans' Home parking lot and The Dalles Veterans' Home capital improvements were issued in February 2019; however, the $10.5 million authorized for construction of a new home in Roseburg was not included in the sale as the Department continued to complete preliminary work and remaining funding for the project has not been identified or awarded. Lottery bonds in the amount of $10.5 million were originally authorized in the 2011-13 biennium and reauthorized in the two subsequent biennia for a third veterans' home in Roseburg. 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 (SB 5506, 2017) and general obligation bonds were authorized to support funding for the home. Construction of the third home is dependent upon award of a USDVA construction grant that would provide 65% of the funding and identification of the required 35% state and local match. State bonds approved in prior biennia have only provided a portion of the matching requirement based on estimated construction costs, with additional funds needed from state or local resources. In addition to the challenges in securing the required state or local match, prior analysis by the Department identified risks that the facility may not be able to maintain the necessary staffing and occupancy levels to operate at a sustainable level.

Lack of progress prompted legislation in the 2018 session that required ODVA to study and report on the progress of establishing the Roseburg Veterans' Home. ODVA's September 2018 report, and associated December 2018 update, maintained that the Roseburg Veterans' Home be built on the Roseburg Veterans Affairs Health Care System campus adjacent to the new main VA hospital. USDVA has agreed to transfer land to the State of Oregon, through a federal land grant, for the site of the home, as well as provide parking lots and utility infrastructure. However, the transfer of land and construction of the new home will not begin until ODVA has been awarded a competitive USDVA construction grant and secured the required match. The December 2018 report estimated total construction costs of approximately $48 million for a 126-bed facility. USDVA construction grant funds would potentially cover $31.2 million (65%) with $16.8 million (35%) needed from state and/or local funds. Capital construction limitation approved in the 2017 session is authorized through June 30, 2023, but no state bonds were authorized in the 2019-21 biennium and no local matching funds have been identified. Absent required matching funds for the project, ODVA is unable to submit an updated grant application to the USDVA that includes certification of available match, preventing a federal grant award necessary to begin construction of the home.

CONSUMER AND BUSINESS SERVICES

PROGRAM AREA

BOARD OF ACCOUNTANCY

Analyst: To

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,261,508	2,617,527	2,647,639	2,788,351
Total Funds	**$2,261,508**	**$2,617,527**	**$2,647,639**	**$2,788,351**
Positions	8	8	8	8
FTE	8.00	7.50	7.50	7.50

Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates approximately 9,000 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, licensing, and examination fees. Additionally, a small amount of revenue is gained through the sale of public information and assessment of civil penalties. Biennial licensing fees paid by CPAs, PAs, and registered firms constitutes 94% of the Board's funding. The Board licenses about 8,000 individuals and 1,000 accounting firms. 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 $4,626,908 of total available revenue for the 2019-21 biennium, which includes a beginning balance of $1,903,493 Other Funds. At the end of the 2019-21 biennium, the Board is expected to have an ending balance of $1,838,557 Other Funds, which represents about 15.8 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, the ending balance serves as the savings bank for unanticipated contested case expenses.

Budget Environment

Examination applications and membership have stabilized, and the Board's 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 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 2019-21 legislatively adopted budget of $2,788,351 represents a $170,824 increase (6.5%) from the 2017-19 legislatively approved budget and a $140,712 increase (5.3%) from the 2019-21 current service level budget. The legislatively adopted budget includes $182,502 to cover the anticipated increase in the Department of Justice Flat Rate Agreement.

BOARD OF CHIROPRACTIC EXAMINERS

Analyst: Morse-Miller

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,672,562	2,027,840	2,224,331	2,260,448
Total Funds	**$1,672,562**	**$2,027,840**	**$2,224,331**	**$2,260,448**
Positions	6	6	6	6
FTE	5.10	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 revenue from the licensure of Chiropractic Doctors and Chiropractic Assistants. Civil penalties, recovery of legal costs, and miscellaneous fees account for the remainder. The agency's ending balance is equivalent to just under three months of operating reserves, and the agency is expected to seek a fee increase during the 2021-23 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 Attorney General service charges as well as the Professional Services account, which provides funding for expert third-party witnesses that are called to testify during administrative hearings.

Legislatively Adopted Budget

The total funds legislatively adopted budget for the Board of Chiropractic Examiners is 10.3% higher than the 2017-19 legislatively approved budget. The budget includes two Policy Option Packages to reclassify the agency's Executive Director and to fund the implementation of database upgrades. Statewide adjustments for state government service charges, including Attorney General and Department of Administrative Services assessments, reduced expenditure limitation in the amount of $40,563 Other Funds resulting in a total budget of $2,260,448 for the Board of Chiropractic Examiners.

CONSTRUCTION CONTRACTORS BOARD

Analyst: Morse-Miller

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	13,236,738	16,174,047	17,001,154	15,038,579
Total Funds	**$13,236,738**	**$16,174,047**	**$17,001,154**	**$15,038,579**
Positions	62	61	59	61
FTE	62.00	61.00	59.00	61.00

Overview

The Construction Contractors Board (CCB) provides consumer protection and regulates the profession of construction contracting by licensing construction-related businesses such as contractors, home inspectors, lead-based paint renovators, locksmiths, flaggers, energy efficiency and sustainable technology businesses, and home energy assessors. 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 most of its revenues from contractor licensing fees (approximately 87%) and the remainder from miscellaneous fees and civil penalties. The agency retains only 20% of civil penalty collections; the remaining 80% of the funds are transferred to the General Fund. An estimated $1.0 million will be transferred to the General Fund in 2019-21.

An increase in licensees over the past two biennia has increased licensing fee revenues; this increase in revenues, coupled with underspending of the agency budget, has led to an exceptionally high ending balance. In 2017, the agency implemented a temporary fee reduction for contractor licenses (from $325 to $250 for a two-year license) and discontinued fees related to continuing education. These revenue reduction measures have been extended into the 2019-21 biennium in an effort to bring the agency's ending balance down to a recommended six to nine months of operating reserves.

Budget Environment

CCB saw a sharp decrease in licensees starting around 2008 as a result of the recession. The agency had a high of around 47,000 licensees in 2008 and bottomed out at approximately 34,000 licensees in 2014. Over the past two biennia, licensee numbers have begun to rebound, and the agency anticipates that they will see close to 40,000 licensees during the 2019-21 biennium.

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 to streamline similar or overlapping workloads and develop efficiencies related to enforcement and information technology services. The two agencies planned a joint effort to rollout a single online licensing system for contractors, but this project is still in the early planning stages for CCB. CCB is directed to report on the status of the online licensing system, and other IT initiatives, to the Joint Committee on Ways and Means during the 2020 Regular Legislative Session.

Legislatively Adopted Budget

The total legislatively adopted budget for the Construction Contractors Board is a 7% reduction from the 2017-19 legislatively approved budget. The budget includes a $2.2 million reduction in Other Funds expenditure limitation for Services and Supplies, to better align the agency's budget with its historic spending pattern. One limited duration Operations and Policy Analyst 4 position (1.00 FTE) was added to the agency to assist with planning for an online licensing system and other technology initiatives. The agency's budget also includes a new Public Service Representative 4 position (1.00 FTE) to assist with additional workload created by an increase in licensees; and the reclassification of an Accounting Technician 3 position to a Fiscal Analyst 1. Statewide adjustments for state government service charges, including Attorney General and Department of Administrative Services assessments, reduced expenditure limitation in the amount of $223,798 Other Funds, resulting in a total budget of $15,038,579 for the agency.

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,823,000	-	-	1,299,319
Other Funds	225,013,504	253,005,744	265,613,032	367,014,796
Other Funds (NL)	166,025,572	202,096,657	212,126,048	211,515,831
Federal Funds	13,695,903	16,803,370	16,823,218	100,670,278
Total Funds	**$406,557,979**	**$471,905,771**	**$494,562,298**	**$680,500,224**
Positions	952	969	960	963
FTE	936.36	959.53	955.79	957.92

Overview

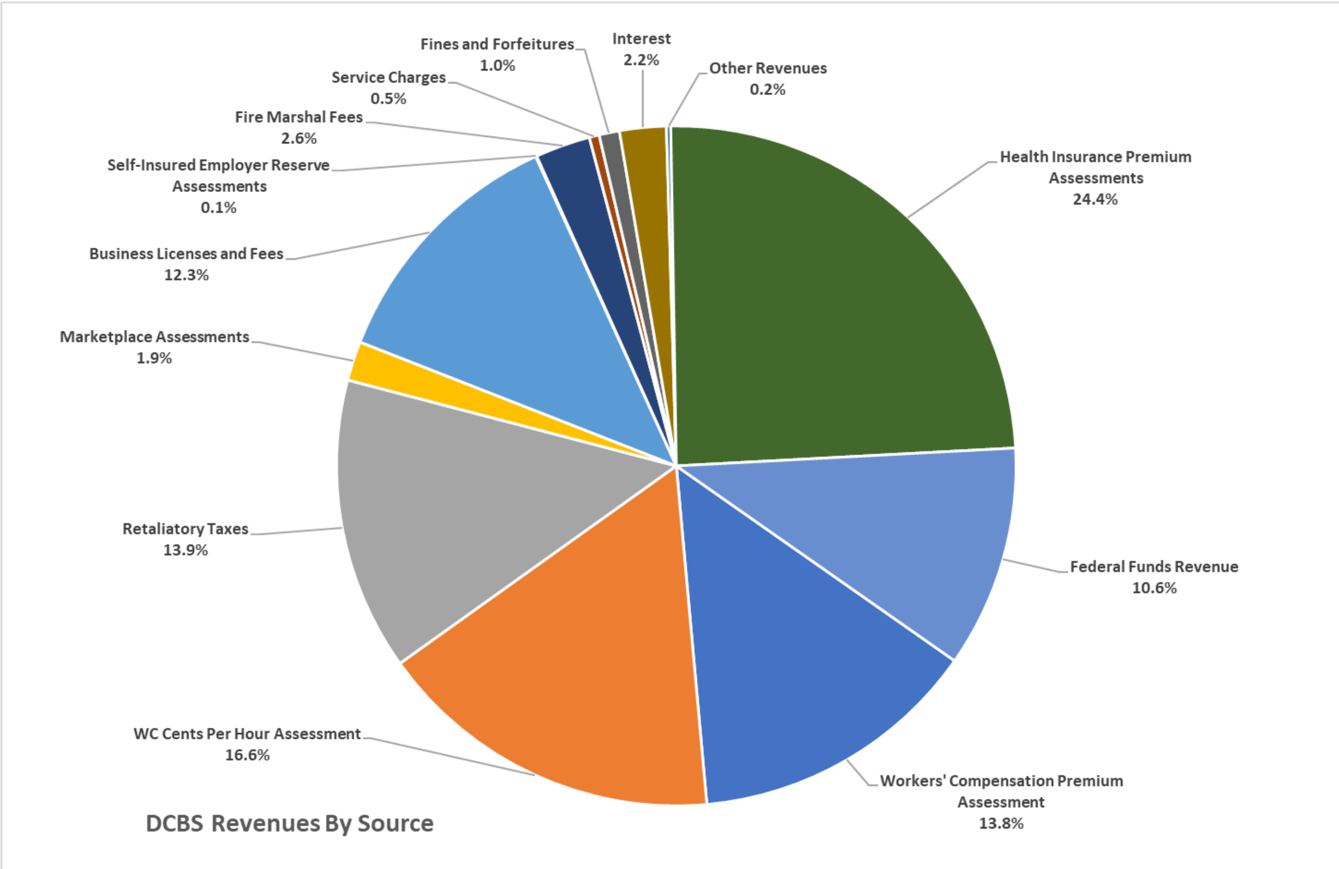
The Department of Consumer and Business Services (DCBS) provides a broad range of consumer protection, health insurance access, and commercial regulatory services for the state. DCBS is organized into the following program areas plus central services and administration:

- 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 (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 18.2% 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, and the medical cost

assistance program for Compact of Free Association (COFA) islanders is also managed within the Oregon Health Insurance Marketplace Division.

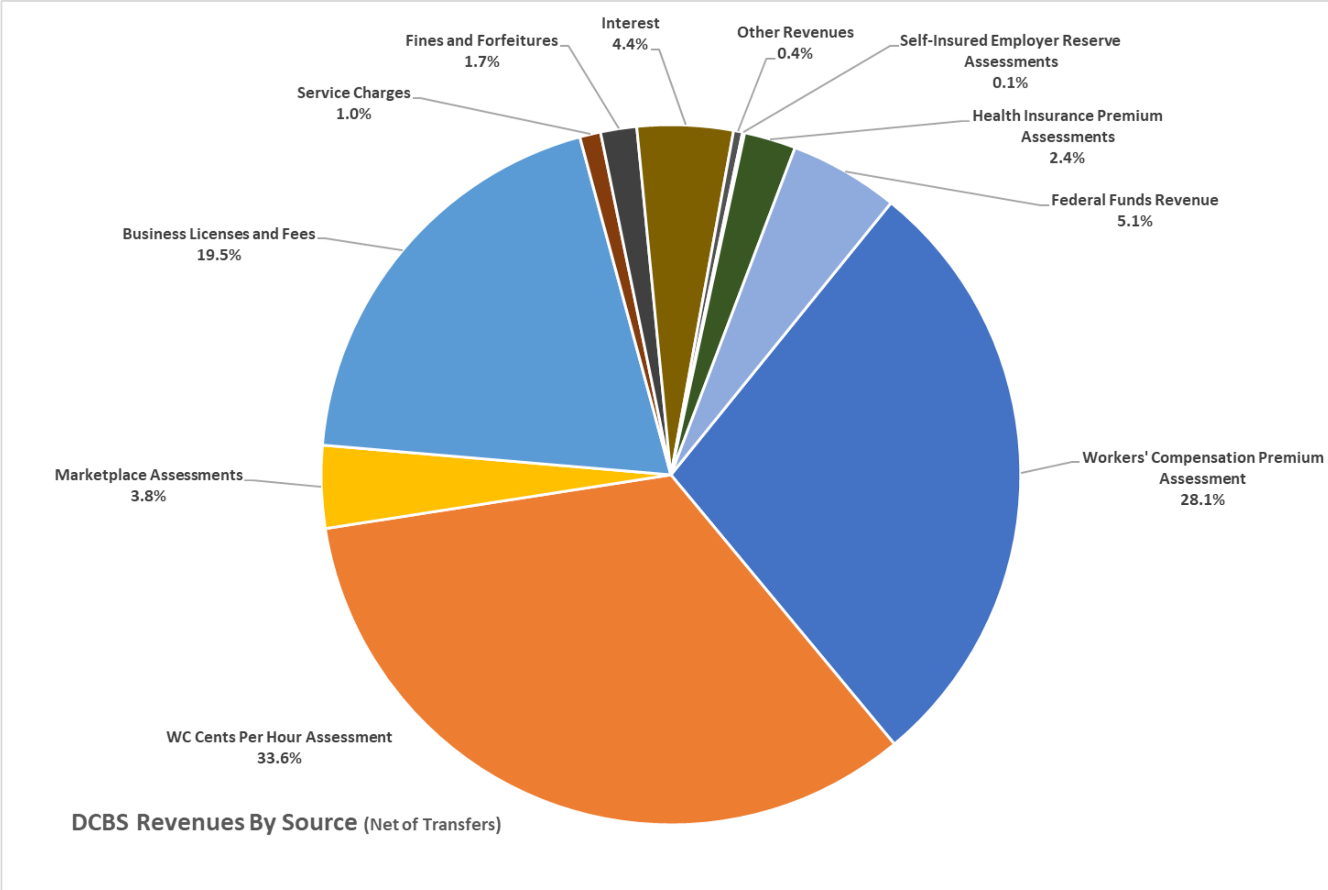
Revenue Sources and Relationships

The agency is primarily funded by Other Funds. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Revenues in the 2019-21 legislatively adopted budget are projected to total $1.045 billion.



Approximately 16.8% of these revenues ($175.78 million) will be transferred to the General Fund. During the 2019-21 biennium, the agency is forecasted to transfer $145.7 million of retaliatory insurance tax revenue, $27.3 million in excess securities dealer licensing and securities registration fees, and $2.04 million of revenues from interest earnings, fees, and fines to the General Fund.

Other Funds transfers, Federal Funds transfers, and Special Payments include $28 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, $1.57 million to the Bureau of Labor and Industries Workers' Compensation related investigations, $184.4 million to health insurers under the Oregon Reinsurance Program established by HB 2391 (2017), $142.1 million to the Oregon Health Authority for providing medical assistance and other health services defined by statute, $965,055 to counties to support the cost of building code inspection and enforcement programs, and $350,000 to the Governor's Office.



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 rate for calendar year 2019 is 7.8%; the rate as of January 1, 2020, is 8.4% for non-self-insured employers, 8.5% for self-insured employers and public self-insured employer groups, and 8.9% 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 8.4% 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 2019 rate is 2.4 cents per hour; the 2020 rate is 2.2 cents per hour split evenly between employers and employees. A portion (1/16th of one cent) of the 2.2 cents-per-hour assessment is transferred in to the Workers' Compensation Division to support a special payment to the Oregon Health and Science 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 $12.55 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 ($1.67 million). Federal Funds revenue is also received by the Building Codes program to provide consumer assistance to individuals with complaints about manufactured homes. Roughly $169 million in Federal Funds revenue is anticipated from section 1332 waivers to support the Oregon Reinsurance Program.

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 2019-21 legislatively adopted total funds budget for the Department of Consumer and Business Services (DCBS) is $680,500,224 and includes 963 positions (957.92 FTE). The budget includes $211.5 million in Other Funds Nonlimited for Workers' Compensation and Insurance programs. This budget is a 44.2% increase from the 2017-19 legislatively approved budget. The vast majority of this increase is due to the provision of expenditure limitation related to the Oregon Reinsurance Program established by HB 2391 in the 2017 legislative session. Excepting those amounts, the agency's budget increases by $22,856,951, total funds; a 4.84% increase from the legislatively approved budget for 2017-19.

The budget for DCBS recognizes revenues from retaliatory taxes from out-of-state insurance companies, which DCBS transfers to the General Fund. The tax is forecasted to generate approximately $145.7 million for the General Fund in the 2019-21 biennium. A surcharge on fire insurance policies, estimated at $28 million in the 2019-21 biennium, is also collected by the agency and is transferred to the State Fire Marshal at the Oregon Department of State Police. Additionally, the budget recognizes $636,240 in anticipated revenues from the establishment of fees authorized by HB 4005 (2018) related to the Oregon Prescription Drug Price Transparency program as well as additional General Fund revenues of $3,100,000 from the increase in fees for annual licensure renewal of securities brokers dealers as adopted by rule.

The budget includes Other Funds expenditure limitation of $1,692,685 providing funding for contracted professional information technology services and the establishment of a permanent manager position (0.88 FTE) in the Workers' Compensation Division to continue planning efforts on modernizing the agency's workers' compensation claims information technology system, a project that is estimated to span multiple biennia.

A General Fund appropriation of $1.2 million for deposit in the Compact of Free Association (COFA) Islander Premium Assistance Fund and corresponding Other Funds expenditure authority of $1.15 million is included in the budget to support ongoing payments of insurance premiums and out of pocket expenses for qualified program participants. A General Fund appropriation of $99,319 and authorization to establish a limited-duration position (0.25 FTE) was included in HB 2706 for DCBS to conduct a cost study on providing dental insurance coverage to COFA islanders in a similar manner to the health insurance premium assistance program.

The largest single item included in the DCBS budget is one-time expenditure limitation of $101,255,388 Other Funds and $84,482,113 Federal Funds to allow the Department to make payments to insurers under the Oregon Reinsurance Program established by HB 2391 (2017). The funding also supports a limited duration Operations and Policy Analyst position (1.00 FTE) to assist with program administration. Revenues for the program are supported through temporary taxes on insurance premiums and managed care premiums, fund balances transferred from a prior reinsurance program, funds transferred from the Oregon Health Insurance Marketplace, and federal funding.

Workers' Compensation System

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	94,282,099	109,589,221	115,541,714	116,315,330
Other Funds (NL)	3,726,164	3,462,034	4,062,034	4,062,034
Federal Funds	10,793,895	12,890,078	13,274,793	12,500,574
Total Funds	**$108,802,158**	**$125,941,333**	**$132,878,541**	**$132,877,938**
Positions	461	471	469	470
FTE	455.99	467.88	466	466.88

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 – ($45,463,363 Other Funds, $4,062,034 Other Funds Nonlimited, 184 Positions, 182.38 FTE) Administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services. The Division has six program areas: Administration, Operations, Compliance, Medical, Benefit Services, and Workers' Compensation Assessments. The Ombudsman for Injured Workers and the Small Business Ombudsman also report to the Division Director.
- Oregon Occupational Safety and Health Administration (OR-OSHA) – ($44,788,554 Other Funds, $12,500,574 Federal Funds, 205 positions, 203.5 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 (WCB) – ($26,063,413 Other Funds, 81 positions, 81.00 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 rate for calendar year 2019 is 7.8%; the rate as of January 1, 2020, is

8.4% for non-self-insured employers, 8.5% for self-insured employers and public self-insured employer groups, and 8.9% 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 8.4% is dedicated to funding the adjustment reserve accounts for self-insured employers and employer groups.

The Workers' Compensation program also receives $3.4 million in interest income, as well as $3.5 million in other revenue, of which $3.3 million is from OR-OSHA fines and forfeitures. In addition, the OR-OSHA Division receives $12.5 million of Federal Funds to support the federal OSHA program in Oregon. The program transfers $1.57 million Other Funds to the Bureau of Labor and Industries (BOLI) to support workers' compensation-related investigations by that agency.

A portion (1/16th of one cent) of the 2.2 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 Science University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease.

Roughly $32.8 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

<u>Budget Environment</u>
Employment and economic activities dominate the budget environment for the Workers' Compensation System. Recently, the Oregon economy has seen a significant recovery from the 2008 recession and, with that associated marked decrease in unemployment, has provided 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.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted total funds budget of $132,877,938 for the Workers' Compensation System is $6.9 million (or 5.5%) higher than the legislatively approved budget for the 2017-19 biennium. The budget generally continues funding for the program at the current service level and adds Other Funds expenditure limitation of $1,692,685 for contracted professional information technology services and the establishment of a permanent manager position (0.88 FTE) in the Workers' Compensation Division to continue planning efforts on modernizing the agency's workers' compensation claims information technology system, a project that is estimated to span multiple biennia.

Due to increasing state costs of the Oregon OSHA program contrasted by relatively fixed or declining Federal Funds support for the program, Federal Funds revenues supporting five positions were replaced with Other Funds to align the agency's budget with anticipated revenues.

Workers' Compensation Nonlimited Accounts

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Self-Insured Employers: Other Funds (NL)	739,673	-	800,000	800,000
Workers' Benefit Fund: Other Funds (NL)	160,996,549	197,089,211	204,512,434	204,512,434
Total Funds	**161,736,222**	**197,089,211**	**205,312,434**	**205,312,434**

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 2020 rate is 2.2 cents-per-hour split evenly between employers and employees. A portion (1/16th of one cent) of the 2.2 cents-per-hour assessment supports a special payment in the amount of $4.06 million Other Funds Nonlimited to the Oregon Health and Science 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 8.4%. Self-insured employers and self-insured employer groups are charged an additional premium of 0.1% and 0.5%, 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. The calendar year 2020 rate decreases this rate again to 2.2 cents-per-hour reflects a continued effort to reduce the fund balance carried in the fund to comport with a SB 1558 (2014) requirement to maintain a balance of no less than six months of projected expenditures.

Legislatively Adopted Budget

The 2019-21 legislatively adopted total funds budget of $205,312,434 for the Workers' Compensation Nonlimited accounts is $8.22 million (or 4.1%) higher than the legislatively approved budget for the 2017-19 biennium. The budget for the self-insured employers Nonlimited funds was increased in the base budget administratively by $800,000 at the request of the agency. Should additional Nonlimited expenditure authority be required during the biennium, it will be established administratively.

Financial Regulation

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	41,719,029	47,206,594	48,980,150	149,813,824
Other Funds (NL)	19,167	669,500	694,911	694,911
Federal Funds	2,902,008	1,157,514	669,274	85,931,387
Total Funds	**44,640,204**	**$49,033,608**	**$50,344,335**	**$236,440,122**
Positions	177	180	174	175
FTE	174.52	177.81	173.79	174.79

The 2015-17 actual expenditure 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.

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.

Revenue Sources and Relationships

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 2019-21 biennium is just over $145.7 million.

The fire insurance premium tax is collected by the Insurance program and transferred to the Department of State Police to fund the State Fire Marshal program. The projected transfer for 2019-21 is $27.4 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 $27.3 million to the General Fund in the 2019-21 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 $11.3 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 2017-19 legislatively adopted budget for the Division of Financial Regulation is $236,440,122, an increase of $187.4 million from the legislatively approved budget for 2017-19.

The increase in the DFR budget is entirely due to the provision of one-time expenditure limitation of $101,255,388 Other Funds and $84,482,113 Federal Funds to allow the Department to make payments to insurers under the Oregon Reinsurance Program established by HB 2391 (2017). The budget also supports a limited duration Operations and Policy Analyst position (1.00 FTE) to assist with program administration. Revenues for the program are supported through temporary taxes on insurance premiums and managed care premiums, fund balances transferred from a prior reinsurance program, funds transferred from the Oregon Health Insurance Marketplace, and federal funding.

Building Codes

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	32,416,140	38,651,877	39,687,331	39,855,422
Other Funds (NL)	441,123	610,217	610,217	-
Federal Funds	-	252,282	255,595	254,624
Total Funds	**$32,857,263**	**$39,514,376**	**$40,553,143**	**$40,110,046**
Positions	125	137	135	135
FTE	122.86	134.80	135.00	135.00

Program Overview
The Building Codes Division (BCD) is responsible for the enforcement of laws and the development of codes related to building of structures and dwellings, manufactured structures, RV parks and tourist facilities, plumbing, elevators, amusement rides, electrical safety, and boilers and pressure vessels. With assistance from seven boards representing specialty areas, it develops, adopts, and interprets state-wide building codes for residential and commercial construction; oversees the fabrication, installation, and repair of boilers and pressure vessels; issues licenses and construction and operating permits; investigates license and code violations; and provides continuing education for licensees. The Division conducts inspections of recreational vehicles, manufactured homes, prefabricated structures and components, and operating elevators.

The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians. BCD provides code inspection services in those areas of the state where cities and counties choose not to provide local services or do not have adequate resources to meet state requirements.

Revenue Sources and Relationships
The revenues for BCD programs are primarily Other Funds from surcharges on permit fees, building permits, licensing, civil penalties, and interest income. BCD receives Other Funds revenue from the registration of ownership documents filed by owners of manufactured structures. The fee that is paid by the person or entity recording the change in ownership to the local tax assessor is forwarded to the Division and then a portion is returned to the county assessor for the cost of processing the transaction.

Federal Funds revenue is received by the program to provide consumer assistance to individuals with complaints about manufactured homes.

Roughly $7.7 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment
The economy has continued to grow over the past few biennia and that growth has included a resurgence in construction activity in the state. This trend is expected to continue through the 2019-21 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 2019-21 legislatively adopted total funds budget of $40,110,046 for the Division is $595,670 (or 1.5%) higher than the legislatively approved budget for the 2017-19 biennium.

The budget continues the funding of the program at the current service level but makes a technical adjustment that eliminates the Other Funds Nonlimited from the budget, replacing a portion of that reduction with increased Other Funds expenditure limitation.

Oregon Health Insurance Marketplace

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,823,000	-	-	1,299,319
Other Funds	18,302,961	16,290,035	15,773,487	15,861,934
Federal Funds	-	2,207,404	2,301,199	1,662,376
Total Funds	**$20,125,961**	**$18,497,439**	**$18,074,686**	**$18,823,629**
Positions	18	22	22	23
FTE	15.65	22.00	22.00	22.25

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 for medical plans and $0.57 for dental plans. It's anticipated that these rates will be reduced for the 2020 plan year.

Projected 2019-21 assessment revenue for the Marketplace program totals $19.5 million. The projected beginning fund balance as of July 1, 2019, for the Health Insurance Exchange Fund is estimated to be $8.1 million for a total of $27.6 million of available resources during the 2019-21 biennium. Of this amount, $3.8 million was re-appropriated to the General Fund. 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 $17.6 million leaving a projected ending balance for the 2019-21 biennium of $6.2 million.

The COFA Islander fund has a projected beginning fund balance of $583,563 as of July 1, 2019. A General Fund appropriation of $1.2 million was made to DCBS for deposit in the COFA Islander Fund. Expenditures from the fund are estimated to be just over $1.4 million for the 2019-21 biennium.

Federal Funds grant revenue supporting the Senior Health Insurance Benefit Assistance program is forecasted to be $1.67 million in the 2017-19 biennium.

Roughly $1.37 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 3% assessed against the premium cost of policies purchased through the federal exchange beginning with the 2019 plan year. For plan year 2020 it is being reduced to 2.5% The user fee is paid directly to HHS by participating insurers, so there is no direct budgetary impact to the Marketplace program.

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 $18,823,629 and includes 23 positions (22.25 FTE). This amount is a 1.76% increase from the 2017-19 legislatively approved budget.

The budget includes reduced Federal Fund expenditure limitation for the Senior Health Insurance Benefit Assistance program by $636,059 to match budgeted expenditures to available federal revenues; reducing program Services and Supplies and payments to local governments that support SHIBA volunteer programs.

Although budgeted in the Central Services Division, $1,717,187 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. These monies were transferred to the fund from the General Fund to provide insurance premium and out of pocket expense assistance to qualified COFA islanders residing in Oregon. Based on cost estimates provided by DCBS, the biennial cost per program enrollee for premium assistance and out of pocket costs is

$1,412. The estimated average number of program participants for the 2019-21 biennium is 746, equating to an estimated biennial cost of $1.05 million plus program administration.

A General Fund appropriation of $99,319 was included in HB 2706 along with the authority to establish a part-time, limited duration position (0.25 FTE) to study the feasibility of administering a program to provide oral health care to low-income citizens of Pacific Islands under COFA who reside in Oregon and lack access to affordable dental coverage. Additionally, the funding is to be used to produce a request for information from prepaid managed care organizations and coordinated care organizations operating in Oregon to gauge the interest in the program and to obtain estimates of the costs of those organizations to provide oral health care to COFA citizens.

Although not reflected in the agency's budgeted expenditures, the Legislature approved a re-appropriation of $3.8 million from the Health Insurance Exchange Fund, transferring those monies to the General Fund. The amount is estimated to be equal to the projected fund balance surplus that is over the statutory limit for the ending fund balance that DCBS is allowed to carry in the fund. The re-appropriation is in conjunction with a General Fund appropriation made to the agency for deposit in the Compact of Free Association Islander Premium Assistance Fund.

Central Services

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds	38,293,275	41,268,017	45,630,350	45,168,286
Other Funds (NL)	102,896	265,695	1,446,452	1,446,452
Federal Funds	-	296,092	322,357	321,317
Total Funds	**$38,396,171**	**$41,829,804**	**$47,399,159**	**$46,936,055**
Positions	171	159	160	160
FTE	167.34	157.04	159.00	159.00

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 $48.28 million from the Department's operating divisions. In addition, $1.7 million Other Funds expenditure limitation is included in the program's budget from the Health Insurance Marketplace Fund to cover direct costs of certain administrative functions of the Marketplace program.

Federal funds of $321,317 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 $46,936,055 for the Central Services Division is $5.1 million (or 12.2%) higher than the legislatively approved budget for the 2017-19 biennium. This increase is primarily attributable to base budget adjustments made to nonlimited expenditure authority and the budgetary implementation of permanent finance plan changes that were approved in the previous biennium, including the addition of one position (1.96 FTE).

BOARD OF DENTISTRY

Analyst: Bushman Reinhold

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,821,996	3,328,763	3,491,238	3,535,260
Total Funds	**$2,821,996**	**$3,328,763**	**$3,491,238**	**$3,535,260**
Positions	8	8	8	8
FTE	8.00	8.00	8.00	8.00

Overview

The mission of the Board of Dentistry is to promote high quality oral healthcare in Oregon by regulating dental professionals. 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 license 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. License and permit fees make up about 90% of the Board's revenue. This revenue source is projected to grow at a rate of 1-2% in 2019-21; the fee increase implemented in 2015 generated a healthy ending fund balance, which will carry the Board forward even as its budget grows due to increasing personnel costs. The Board is projected to maintain an estimated ending balance of $1,713,605, or 12.9 months of operating expenses.

Budget Environment

The Board has seen very modest growth in new and renewed licenses since 2013. Currently, the Board has approximately 3,875 licensed dentists and 4,321 licensed dental hygienists. Projected licensee growth and the regulatory workload are anticipated to remain relatively flat in the upcoming biennium.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget increases the agency's budget by 6.2% over the 2017-19 legislatively approved budget. The budget includes an expenditure limitation increase of $100,000 Other Funds for a new licensing database.

HEALTH-RELATED LICENSING BOARDS

Analyst: Bushman Reinhold

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,101,941	6,204,915	6,617,355	7,488,030
Total Funds	**$5,101,941**	**$6,204,915**	**$6,617,355**	**$7,488,030**
Positions	21	22	22	24
FTE	20.25	20.56	20.75	23.00

Overview

The Health-Related Licensing Boards (HRLB) are currently comprised of six independent licensing boards combined into one agency for the purposes of budget 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 certain services, including information technology and accounting. Additionally, most of the boards share a common office suite in the Portland State Office Building, a conference room, printers, and copiers.

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. The estimated ending balances for the boards generally fall within a reasonable operational need based on cash flows.

Budget Environment

The boards' main activities are licensing, regulatory compliance, investigation and education. 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.

In 2015, the HRLB budget established a shared accountant position to provide budget support and accounting for the boards in lieu of utilizing the Department of Administrative Services Shared Financial Services. In 2018, the boards contracted for an audit of their financial systems. The auditor recommended a Fiscal Analyst 3, rather than an accountant, to meet the accounting and budget needs of the boards. The 2019-21 budget included a Fiscal Analyst 3 position housed in the Board of Naturopathic Medicine to address the need for improved analysis and budget support. As with the accountant, the costs of this shared position are allocated to each board based on transaction use. The budget also included expenditure limitation to pay for a new licensing database and desktop support for all of the boards.

In 2018, each of boards reviewed their positions to align them with actual work being performed, and for pay equity with staff performing similar work in other licensing offices. Several positions across multiple boards were reclassified. The 2019-21 budget includes expenditure limitation to cover those reclassifications.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $7,488,030 Other Funds and 24 positions (23.00 FTE). The budget is a 20.7% increase from the 2017-19 legislatively approved budget.

More detail follows for each individual board.

Board of Medical Imaging

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	839,959	898,304	944,587	1,175,429
Total Funds	**$839,959**	**$898,304**	**$944,587**	**$1,175,429**
Positions	3	3	3	4
FTE	3.00	3.00	3.00	3.50

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; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees.

Revenue Sources and Relationships

The Board 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. Currently, there are over 5,800 individuals with a two-year permanent license or limited x-ray permit; of those, 900 have multiple licenses, but pay the single license fee of $120. An additional 80 individuals have temporary licenses, which cost $30 for a six-month license. Over the past eight years, the total number of permanent licenses increased by over 50 percent. The Board's projected ending cash balance of $185,879 equals approximately 3.8 months of operating costs. The Board anticipates increasing license fees during the 2019-21 biennium.

Budget Environment

The Board engages in four main activities: licensing, regulatory compliance, education, and administration. Staffing levels for the Board have remained constant despite increases in licensees. Most disciplinary cases are initiated by Board staff conducting audits at the time of application or renewal, often for failure to report criminal history found through fingerprint background checks. About 20% of opened cases are initiated via complaint filed with the Board. The Board had been using a contract investigator; however, with the increase in licensees and investigations, the decision was made to hire a permanent, half-time investigator going forward.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $1,175,429 represents a 30.9% increase from the 2017-19 legislatively approved budget level. The budget includes Other Funds expenditure limitation for the following: (1) a new licensing database and desktop support; (2) the establishment of a permanent, half-time investigator position; (3) three position reclassifications approved by DAS; and (4) the flat-rate fee charged by the Department of Justice for legal support.

Mortuary and Cemetery Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,814,321	2,191,749	2,267,235	2,343,995
Total Funds	**$1,814,321**	**$2,191,749**	**$2,267,235**	**$2,343,995**
Positions	7	7	7	7
FTE	7.00	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; promoting professional behavior and standards in all facets of the Oregon death care industry; and 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. The death certificate filing fee is $20; of that amount, $14 is allocated to the Board for operating expenses and $6 goes to the indigent disposition fund to reimburse funeral practitioners for the cost of disposing of the remains of indigent people. The projected ending cash balance of $1,028,418 equals approximately 10.5 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 four main activities: licensing individual death care professionals and the facilities in which they work, performing required facility inspections, investigating complaints, 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.

The Board is mandated by statute to physically inspect and review documents for approximately 800 facilities every two years. Due to staff vacancies and other issues, only a small number of facility inspections were completed during the 2017-19 biennium. These issues also negatively impacted complaint closures.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $2,343,995 represents a 7.0% increase from the 2017-19 legislatively approved budget. The budget includes an increase in Other Funds expenditure limitation for two position reclassifications, as well as a new licensing database and desktop support. In addition, the shared accountant position is moved to the Board of Naturopathic Medicine and an Investigator 2 position is added to increase the Board's inspection capacity. The budget includes instruction to the Board to report to the Legislature in September 2019 on the status of filling the two vacant inspector positions, a plan for inspecting all facilities during the biennium, and the status of its complaint closure backlog.

Board of Naturopathic Medicine

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	718,941	809,413	905,995	1,166,035
Total Funds	**$718,941**	**$809,413**	**$905,995**	**$1,166,035**
Positions	3	3	3	4
FTE	2.50	3.00	3.00	4.00

Overview

The mission of the Board of Naturopathic Medicine is to protect the public by licensing and regulating Naturopathic physicians. 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 1,500 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 2019-21 projected ending cash balance of $352,060 equals approximately 7.7 months of operating costs.

Budget Environment

The number of licensees for this board 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 2019-21. The number of complaints has also increased, resulting in approximately 50 investigations per year.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $1,166,035 represents a 44% increase from the 2017-19 legislatively approved budget. The budget includes an increase in Other Funds expenditure limitation for the following: (1) establishing a Fiscal Analyst 2 position, to be shared with the other Boards; (2) reclassification of the Executive Director position; and (3) a licensing database and desktop support.

Occupational Therapy Licensing Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	380,627	514,522	542,405	619,842
Total Funds	**$380,627**	**$514,522**	**$542,405**	**$619,842**
Positions	2	2	2	2
FTE	1.50	1.50	1.50	1.75

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 2,100 licensed occupational therapists (OT) and 500 occupational therapy assistants (OTA) renewed on a biennial basis. The biennial fees are $150 for OTs and $100 for OTAs. The fees have not been increased since 2006. The Board's projected ending cash balance for the 2019-21 biennium is anticipated to be $229,867, equaling approximately 8.9 months of operating costs.

Budget Environment
The agency engages in four main activities: licensing, continuing education monitoring, complaint investigation, and administration. The agency anticipates continued growth in the total number of licensees, tracking the U.S. Bureau of Labor Statistics projection of a 27% increase in occupational therapists between 2017 and 2024. The Board anticipates increases in investigations as licensing numbers continue to increase.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $619,842 represents a 20.5% increase from the 2017-19 legislatively approved budget. The budget includes an increase in Other Funds expenditure limitation to cover the costs of a new licensing database and desktop support, reclassification of the Executive Director position, and an addition of 0.25 FTE to the Administrative Specialist position.

Board of Examiners for Speech-Language Pathology and Audiology

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	579,749	756,010	858,343	979,115
Total Funds	**$579,749**	**$756,010**	**$858,343**	**$979,115**
Positions	3	2	3	3
FTE	2.50	2.00	2.50	3.00

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 Board is funded by revenue generated from application, license, and certification fees and has approximately 2,700 active licensees, a 23% increase from 2013. The last fee increase for the Board was approved in 2013. The Board's projected ending cash balance of $320,993 equals approximately 7.9 months of operating costs.

Budget Environment
The agency has identified three main activities of licensing, investigation, and administration. 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 educate school districts on the licensure requirements of speech-pathologists and pathology assistants.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $979,115 represents a 29.5% increase from the 2017-19 legislatively approved budget. The budget includes an increase in Other Funds expenditure limitation for the following: (1) a new licensing database and desktop support; (2) an increase in the Investigator 2 position from 0.50 FTE to 1.0 FTE; and (3) reclassification of the executive director position.

Veterinary Medical Examining Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	768,344	1,034,917	1,098,790	1,203,614
Total Funds	**$768,344**	**$1,034,917**	**$1,098,790**	**$1,203,614**
Positions	4	4	4	4
FTE	3.50	3.75	3.75	3.75

Overview
The Veterinary Medical Examining Board protects public and animal health and consumers of veterinary services by regulating veterinary professionals in Oregon under the statutes and rules of the Veterinary Practice Act. The Board 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; and conducts national board examinations for veterinary technicians. The eight-member board is appointed by the Governor and is 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 2,600 licensed veterinarians and 1,400 certified veterinary technicians, with licenses renewed on a biennial basis. The Board raised fees in the 2013-15 biennium by 50 percent and added a facility registration fee beginning with the 2015-17 biennium. An increase in the number of licensees, along with a higher-than-expected number of facility registrations has resulted in significant revenue growth. The 2019-21 projected ending cash balance of $1,289,504 equals approximately 25.7 months of operating costs.

Budget Environment
The Board engages in three main activities: licensing, investigations, and facility inspection. The number of complaints averages about 150 per year, with the most common consumer complaint being veterinary fees or the veterinarian’s communication. Most complaints that result in disciplinary review are resolved through stipulated agreement that may or may not involve civil penalties.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $1,203,614 represents a 16.3% increase from the 2017-19 legislatively approved budget level. The budget includes an increase in Other Funds expenditure limitation for a new licensing database and desktop support, and to cover the costs associated with reclassifying two positions.

BUREAU OF LABOR AND INDUSTRIES

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	12,579,327	13,461,113	14,341,010	14,894,178
Lottery Funds	--	--	--	250,000
Other Funds	9,805,185	12,675,846	13,264,926	13,953,296
Other Funds (NL)	756,373	1,281,732	900,000	900,000
Federal Funds	1,421,260	1,297,545	1,354,891	1,335,294
Total Funds	**24,562,145**	**28,716,236**	**28,860,827**	**31,332,768**
Positions	106	107	106	113
FTE	103.02	105.38	104.38	109.80

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 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 47.5%, 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 $5,273,000 in the 2019-21 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 $550,000 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 employees. Such payments are projected to total $900,000 during the 2019-21 biennium. The Wage Security Fund is also used for administrative expenses, which are budgeted as Other Funds. Of the $14 million in Other Funds expenditure limitation for the 2019-21 legislatively approved budget, $3.1 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 $3,289,100 for 2019-21. Fees for publications, seminars, and presentations on employment law generate $1.6 million 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 the Wage and Hour Division's licensing of farm, forest, and construction labor contractors and janitorial firms is expected to yield $362,600 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 $1,050,000 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 when federal and state jurisdictions overlap.

Budget Environment

BOLI personnel have diminished over time, from 160.00 FTE in the 1993-95 biennium to a low of about 100 in the 2013-15 biennium. The legislatively approved budget provides for 109.80 FTE and 71.5% of agency expenditures are for personal services costs. BOLI responded to new laws passed in 2015-19 and 2017-19 relating to paid sick leave, increases in the Oregon minimum wage, pay equity, predictive scheduling, and overtime for manufacturing employees with efforts to educate employers about the changes, helping them to remain in compliance with Oregon Law. In January 2019, a new Labor Commissioner took office with an agenda to better serve customers - both workers and employers - in the 2019-21 biennium. The new Labor Commissioner's budget priorities included targeted investments that would help BOLI better share information, resolve outstanding claims, and better meet employer needs in the Eastern part of the state. She prioritized agency activities that met statutory obligations, aligned customer demand and work load, and would result in efficiencies.

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 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 division workload, as measured by inquiries, investigations, and new registrations.

Division/Activity	**2016**	**2017**	**2018**
Wage and Hour - Inquiries	35,000	35,000	35,000
Wage and Hour - Claims Filed	1,649	1,189	1,138
Wage and Hour - Investigations	1,527	1,116	1,104
Civil Rights - Inquiries	45,644	46,176	47,000
Civil Rights - Cases Filed	1,700	1,829	1,900
Apprenticeship - New Registration	2,997	3,960	4,339
Tech. Assistance for Employers - Inquiries	25,097	24,094	23,725
Tech. Assistance for Employers - Trainings	249	222	177
Administrative Prosecution - Contested Cases	62	76	130

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget includes standard rate reductions to central government service charges and Public Employee Retirement System assessments, as well as key investments that will be discussed in the following sections that foster transparency and faster access to accurate information or case resolution. The agency was directed to research and develop alternatives for generating non-General Fund revenue to support agency activities and services related to apprenticeship and training. General Fund increased 3.9% from the 2019-21 Current Service Level, and seven new positions (5.42 FTE). The passage of HB 2202 resulted in $250,000 of Lottery Funds being allocated and one position approved in the 2019-21 biennium for BOLI to conduct outreach to residents who served in the Oregon National Guard or armed forces reserves, connecting interested individuals with available apprenticeship opportunities.

Commissioner's Office and Program Support Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,992,981	4,212,469	4,236,431	4,653,053
Other Funds	3,042,128	3,465,725	3,579,800	3,745,485
Federal Funds	232,641	280,379	299,285	283,523
Total Funds	**7,267,750**	**7,958,573**	**8,115,516**	**8,682,061**
Positions	27	27	26	28
FTE	26.13	25.38	25.38	27.38

<u>Program Description</u>
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. Nine positions comprise the Commissioner's Office, including the Commissioner, Deputy, Director of Legislative Affairs, executive support (2 positions), public affairs and communications manager, legal policy advisor, an administrative law judge, and a public records coordinator position added in 2019.
- Business Services – Five 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 seven 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 the Workplace Advisory Committee.

<u>Revenue Sources and Relationships</u>
The Commissioner's Office/Support Services Unit receives 53.6% of its support from the General Fund. Other Funds revenues include $1.6 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 employer reference handbooks and composite workplace postings. Additional Other Funds are received from miscellaneous fees, portions of the Wage Security Fund revenue, and Prevailing Wage Rate fees that are allocated to the Commissioner's Office to support central administrative costs and the costs of conducting administrative law hearings. Federal Funds are from an Equal

Employment Opportunity Commission (EEOC) contract and are used to cover costs associated with the investigation of complaints dually filed with BOLI and the EEOC.

Budget Environment

The 2019 Legislative Assembly invested resources that will increase the availability of information and improve services to BOLI customers.

Legislatively Adopted Budget

Upgrades to the agency's website ($250,000 General Fund) are planned to enable better access to Technical Assistance publications and resources and may include searchable resources by topic to allow employers to get access to common questions, employer training and seminar content, and the ability to conduct other business with BOLI on line. Also approved was a General Fund-supported position to coordinate contested case and public records requests on behalf of employers, claimants, and the general public, ensuring that attorneys and citizens have timely access to their own records and case files.

Additional accounting resources were added (1.00 FTE) to the business services section to facilitate timely payment of wage claims. The position will be funded by Wage Security Fund resources.

Civil Rights Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,990,734	3,365,753	3,766,345	3,917,253
Other Funds	951,898	1,481,363	1,644,496	1,637,038
Federal Funds	1,155,168	999,795	1,055,606	1,051,771
Total Funds	**5,097,800**	**5,846,911**	**6,466,447**	**6,606,062**
Positions	30	30	30	31
FTE	29.25	29.25	29.50	30.50

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 (part of 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 nearly $1 million 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 generate approximately $131,000 in miscellaneous receipts that are also a source of Other Funds for this Division. The EEOC provides just over $1 million 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 EEOC, 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 2018, approximately 94% of the inquiries handled by the Civil Rights Division centered on complaints regarding employment. Of the remaining 6%, issues related to accommodation for disability comprised 31% of complaints, sex discrimination accounted for 41% of volume, injured worker status represented 16%, and issues of race comprised the remaining 22% (amounting to 110% because some complaints alleged concerns in multiple areas). The 47,000 inquiries in 2018 resulted in approximately 1,900 formal complaints, approximately two-thirds of which were investigated.

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 there is a low probability that the complainant can provide substantial evidence to support the allegation. These cases usually result in an interview with the complainant and review of any documents submitted to ensure that relevant factors were not overlooked. The cases may be upgraded, but if no additional evidence is presented, the cases are usually dismissed.

A new division administrator took over in July 2019 and is actively involved in reviewing business and regulatory practices to ensure they result in consistent investigatory techniques and treatment of claimants and defendants, efficient disposition of cases, and that findings continue to be upheld on appeal.

Legislatively Adopted Budget

The legislatively adopted budget included the addition of a Civil Rights Investigator 2 position (1.00 FTE) supported by General Fund. Total Funds for the Civil Rights division increased 13% from the 2017-19 legislatively approved level. Also approved was General Fund in the amount of $21,114 to reclassify management positions, resolving work out of class agreements in the Civil Rights Division.

Wage and Hour Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,885,665	3,004,298	3,215,138	3,009,278
Other Funds	3,740,254	5,355,949	5,903,418	5,881,413
Other Funds (NL)	756,373	1,281,732	900,000	900,000
Total Funds	**7,382,292**	**9,641,979**	**10,018,556**	**9,790,691**
Positions	33	34	34	35
FTE	32.14	33.75	34.00	33.50

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including 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, enforces the Prevailing Wage Rate Law, and licenses and regulates farm, forest, construction, and 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 1,104 investigations related to reported wage and hour irregularities in 2018. Approximately 178 claims for final unpaid wages against the Wage Security Fund were paid out during the same period. Sixty-four cases in 2018 were determined to be subject to prevailing wage for public works projects. The Division issued a combined total of 801 licenses to farm, forest, construction labor, and janitorial service contractors. The Wage and Hour Division's investigations are primarily complaint driven.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget represents a 2% total funds increase from the 2017-19 legislatively approved budget, and a 2% decrease from the 2019-21 current service level. The legislatively adopted budget included $15,614 General Fund and $14,354 Other Funds expenditure limitation to reclassify management positions, resolving work out of class agreements in the Wage and Hour Division. A management position deemed redundant by the commissioner was eliminated (-0.75 FTE) at a savings of $166,294 General Fund, and administrative support was added to a regional field office (1 position, 0.25 FTE), which will be funded through an increase in janitorial service contractor fees.

Apprenticeship and Training Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,709,947	2,878,593	3,123,096	3,314,594
Lottery Funds	--	--	--	250,000
Other Funds	2,070,905	2,372,809	2,137,212	2,689,360
Federal Funds	33,451	17,371	--	--
Total Funds	**4,814,303**	**5,268,773**	**5,260,308**	**6,286,883**
Positions	16	16	16	19
FTE	15.50	16.00	15.50	18.42

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 and 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, including 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 diversify the heavy highway construction workforce by expanding outreach, training, and support services to women, minorities, and young adults. The program is funded by up to $2.1 million per biennium of federal transportation dollars that BOLI expends as Other Funds. The Division also receives Other Funds from the Higher Education Coordinating Commission related to one position dedicated to expanding apprenticeship as a viable workforce training option for employers outside traditional building trade industries. This contract was renewed for the 2019-21 biennium but is expected to be phased out in future biennia.

Budget Environment

According to 2018 data, 4,653 Oregon employers utilized registered apprenticeship in 2018, and BOLI reported that in 2019, for the first time ever, there were over 10,000 active apprentices in Oregon. Apprenticeship program registrations fluctuate with the economy, and have been boosted by a strong construction industry within a similarly strong economy. BOLI reports that the number of apprentices in the agency's certified programs has more than doubled over the past six years. Apprenticeship completions are dependent on jobs being available to provide the needed hours of on-the-job-training. A total of 1,429 apprenticeship completions were recorded in 2018, representing 170 more than the prior year and far surpassing the agency's target of 2,200 completions.

The Division works with educators and employers to develop youth apprenticeship and apprenticeship preparation programs and 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 19.3% total funds increase from the 2017-19 legislatively approved budget, due to the addition of a position to help Eastern Oregon employers with technical assistance and apprenticeship access, and the passage of HB 2202, which allocated Measure 96 Lottery Funds dedicated for veteran-related services to National Guard and armed forces reserves apprenticeship outreach. As previously mentioned, the contract with the Higher Education Coordinating Council was extended, and Other Funds expenditure limitation of $553,542 was included to accommodate fulfillment of obligations. Lastly, BOLI was directed to research and develop alternatives for generating non-General Fund revenue to support agency activities and services related to apprenticeship and training, and to report back on findings and recommendations during the 2020 legislative session.

MEDICAL BOARD

Analyst: Bushman Reinhold

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	10,238,728	12,840,109	13,324,918	13,662,415
Total Funds	**$10,238,728**	**$12,840,109**	**$13,324,918**	**$13,662,415**
Positions	39	40	40	41
FTE	38.79	40.00	40.00	41.00

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 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 its revenue from licensure and registration fees, the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Licensing fee revenue increased 5.1% in 2017-19; revenue projections for the 2019-21 biennium anticipate a similar increase.

Budget Environment

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. The Board continues to examine their rules and procedures to ensure the profession is addressing and adapting to Oregon’s changing demographics, including an aging and diversifying population.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon Medical Board totals $13,662,415 Other Funds and 41 positions (41.00 FTE). The budget is a 6.4% increase from the 2017-19 legislatively approved budget. The adopted budget is projected to leave an ending balance of $9.8 million Other Funds, roughly equal to 18 months of operating expenses. The budget includes additional ongoing expenditure limitation to cover the costs of a new public member on the board and to establish a permanent full-time Public Affairs Specialist. The budget also includes an ongoing increase in Other Funds limitation of $250,000 for transfer to the Foundation for Medical Excellence to support the Oregon Wellness Program, which provides specialized mental health services to health professionals across the state.

MENTAL HEALTH REGULATORY AGENCY

Analyst: To

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,558,922	3,509,699	3,656,573	3,941,338
Total Funds	**$2,558,922**	**$3,509,699**	**$3,656,573**	**$3,941,338**
Positions	12	11	11	12
FTE	9.00	11.00	11.00	12.00

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. The Oregon Mental Health Regulatory Agency is responsible for the administration, regulatory oversight, and centralized services of two boards: [1] the Board of Licensed Professional Counselors and Therapists and [2] the Board of Psychology (previously known as the Board of Psychologist Examiners). These two Boards maintain independent authority over consumer protection and determining the qualifications of their respective regulated professions. The two Boards jointly appoint the director for the Oregon Mental Health Regulatory Agency and share resources; however, each Board maintains separate revenues and expenses through separate expenditure limitations under one budget appropriation bill to ensure that the licensing fees of one Board are not used to subsidize the expenses of the other. As national policy and practice continue to transform mental health care delivery and funding in order to address workforce shortage issues and to integrate mental health care with primary care and social services, the agency will need to monitor these changes to ensure that the licensing requirements, fee structures, and operation expenses of the two boards adjust adequately to changes to the mental health professions licensed and regulated by the agency.

Board of Licensed Professional Counselors and Therapists

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,295,574	2,079,741	2,195,531	2,384,631
Total Funds	**$1,295,574**	**$2,079,741**	**$2,195,531**	**$2,384,631**
Positions	6	7	11	12
FTE	4.50	7.00	7.00	7.65

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. Based on a projected 8% growth rate in licensees and interns during 2019-21, the Board expects to issue 1,328 initial licensees, process 9,356 license renewals and 2,486 internship renewals, and receive 2,242 licensure applications. At the end of the 2019-21 biennium, the Board is expected to have an ending balance of $1,010,664 Other Funds, which represents about 10.2 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 13.6% per year; the number of new registered interns has increased by an average of 8.5% per year. Correspondingly, the number of investigations received have increased by over 40% in the past 5 years, from 138 in 2013 to 194 in 2018. 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) 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 service, and although the licensure program is voluntary, insurance companies do not reimburse unlicensed practitioners 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 2019-21 legislatively adopted budget of $2,384,631 Other Funds is an increase of $304,890 Other Funds (14.7%) above the 2017-19 legislatively approved budget. The budget is an increase of $189,100 Other Funds (8.6%) above the 2019-21 current service level. The legislatively adopted budget includes:

- $156,022 to fund the Board of Licensed Counselors and Therapists' share of a Compliance Specialist 2 position (0.65 FTE) to assist the Board with its growing investigation backlog. This reflects legislative approval to make permanent a limited duration Compliance Specialist 2 position to oversee compliance case management duties to allow investigators to focus on timely, thorough, and procedurally sound investigations.
- $57,073 to cover the Board's portion of ongoing costs of desktop support, ETS hosting, and database monthly maintenance fees associated with the implementation of an IT project to integrate and update the two Boards' online database and desktop support needs.

Board of Psychology

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,263,348	1,429,958	1,244,364	1,556,707
Total Funds	**$1,263,348**	**$1,429,958**	**$1,244,364**	**$1,556,707**
Positions	6	4	0	0
FTE	4.50	4.00	4.00	4.35

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. Based on a 3% growth rate in the licensee base, the Board expects to renew 2,210 licenses, receive 368 licensure applications, register 278 jurisprudence exam candidates, and issue 74 limited permits. At the end of the 2019-21 biennium, the Board is expected to have an ending balance of $561,420 Other Funds, which represents about 8.7 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 2019-21 legislatively adopted budget of $1,556,707 Other Funds is a $126,749 increase (8.9%) from the 2017-19 legislatively approved budget. The budget is a $95,665 increase (6.6%) from the 2019-21 current service level. The legislatively adopted budget includes:

- $84,012 to fund the Board of Psychology's portion of a Compliance Specialist 2 position (0.35 FTE) to assist the Board with its growing investigation backlog. This reflects legislative approval to make permanent a limited duration Compliance Specialist 2 position to oversee compliance case management duties to allow investigators to focus on timely, thorough, and procedurally sound investigations.
- $30,731 to cover the Board's portion of ongoing costs of desktop support, ETS hosting, and database monthly maintenance fees associated with the implementation of an IT project to integrate and update the two Boards' online database and desktop support needs.

BOARD OF NURSING

Analyst: Bushman Reinhold

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	15,351,050	16,847,478	17,888,645	19,719,954
Total Funds	**$15,351,050**	**$16,847,478**	**$17,888,645**	**$19,719,954**
Positions	49	49	49	54
FTE	48.49	48.90	48.90	53.90

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.

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. Nine dollars of each nursing license fee is transferred to the Oregon Center for Nursing.

Budget Environment

The agency's budget is influenced by the number of licensees, the number and complexity of complaint investigations, background checks, and the number of participants in the Health Professionals' Service Program. The number of active licenses issued by the board has grown dramatically over the past three biennia. OSBN currently licenses over 67,000 nurses, and about 19,000 nursing assistants. The number and complexity of complaint investigations correlates with the growth in licensees and the increasing complexity of the profession. The increased investigative burden is further exacerbated by the aging out of many current nurse professionals. As nurses retire, their positions are being filled by younger, less experienced nurses that tend to generate more complaints. The 2019-21 budget provides an increase in resources for licensing and investigations.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon Board of Nursing totals $19,719,954 Other Funds with 54 positions (53.90 FTE). The budget is a 17% increase from the 2017-19 legislatively approved budget and is projected to leave an ending fund balance of $7.9 million Other Funds, equal to about 9.7 months of operating expenses. The board's budget includes $1,305,011 in Other Funds expenditure limitation to reclassify 11 positions and to permanently establish five full-time positions to address workload in licensing and investigations. The budget also provides a one-time expenditure limitation increase of $400,000 Other Funds and an ongoing expenditure limitation increase of $75,000 Other Funds to expand and improve the Board's office space.

BOARD OF PHARMACY

Analyst: To

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,253,007	7,464,610	7,698,155	8,761,878
Total Funds	**$6,253,007**	**$7,464,610**	**$7,698,155**	**$8,761,878**
Positions	20	20	20	22
FTE	20.00	20.00	20.00	22.00

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. 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. The Board's 2019-21 legislatively adopted budget includes an updated fee schedule; the last time the Board raised fees was in 2001. A proposed fee increase during the 2011-13 biennium was rolled back to 2001 rates. In 2015, the Board instituted biennial licensure without a fee adjustment. Pharmacists, certified pharmacy technicians, and pharmacy technicians have been receiving two years of license for the price of one year. This updated fee schedule will adjust for biennial licensure as well as address the increase costs of operations driven by changes in pharmacy practice and technological advances being incorporated into systems of drugs distribution. This fee schedule update will help the Board maintain an adequate cash flow and ending balance. At the end of the 2019-21 biennium, the Board is expected to have an ending balance of $1.5 million Other Funds, which represents approximately 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 U. S. Food and Drug Administration (USDA), the U. S. 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 increases in the numbers of licensees and in the complexity of consumer requests for information and complaints, resulting in a greater number of investigations.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $8,761,878 Other Funds represents a 17.4% increase from the 2017-19 legislatively approved budget and a 13.8% increase from the 2019-21 current service level budget. The budget includes:

- $174,862 to cover Department of Justice (DOJ) fees. The board utilizes the DOJ flat-rate agreement to better anticipate legal costs. The flat-rate is evaluated each biennium based on the past 36 months of usage. 2015-17 usage caused the rate for 2017-19 to be $144,000 higher than the legislatively approved allocation; the agency worked to absorb this overage. However, even with a reduction of legal services during the first year of 2017-19, it is anticipated that with the 2019-21 pricelist inflation adjustment, an additional $174,862 of resources will be required.
- $279,021 for ongoing technology support services including database administration, maintenance, operation, and hosting services.
- $468,403 and authority to establish one Healthcare Investigator position and one Public Service Representative 3 position (2.00 FTE) to address a growing workload associated with the increased in number of applicants and licensees, as well as the growing number of complex outlet license categories. These positions will support the work of compliance, inspections, and investigations, as well as rulemaking efforts for the Board and Formulary Committee.
- $16,027 to provide per diem and travel reimbursement for the seven members of the Public Health and Pharmacy Formulary Advisory Committee established by HB 2397 (2017).
- $288,415 carryforward funds for the agency to complete the implementation of its licensing and compliance database upgrade.
- A reduction of Other Funds limitation ($69,260) due to phasing out support of 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.

PUBLIC UTILITY COMMISSION

Analyst: Jolivette

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	37,870,777	45,919,838	48,075,719	49,252,175
Other Funds (NL)	68,662,899	56,290,822	54,312,163	54,312,163
Federal Funds	658,975	742,231	790,833	1,025,117
Total Funds	**$107,192,651**	**$102,952,891**	**$103,178,715**	**$104,589,455**
Positions	126	127	123	130
FTE	125.13	125.76	122.50	127.75

<u>Overview</u>

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 investments. There are approximately 2.9 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.

PUC's 2019-21 legislatively adopted budget is $104.6 million total funds and 130 positions (127.75 FTE). The agency is organized into the following four programs:

- Utility Regulation Program ($76.4 million, 65.50 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 Other Funds Nonlimited.
- Residential Service Protection Fund (RSPF) Program ($10.1 million, 7.50 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 53,000 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 ($17.3 million, 52.75 FTE) includes the Commission Chair, who serves as the agency's administrative head, two Commissioners; the Executive Office, which is responsible for the overall strategic performance of the agency, public policy engagement, and agency communications; 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 Business Services Division, which provides budget, accounting, and support services to the agency; information technology; Human Resources; and Consumer Services, which responds to questions from consumers about the utility industry and assists in resolving consumer complaints. The Board of Maritime Pilots full-time staff report administratively to the Chief Operating Officer.
- Board of Maritime Pilots ($801,735, 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.

<u>Revenue Sources and Relationships</u>
The Commission is funded with $49.3 million Other Funds, $54.3 million Other Funds Nonlimited, and $1 million Federal Funds.

Other Funds are derived primarily from fees assessed on regulated utilities. Natural gas, water, and wastewater utilities are assessed up to 0.45% on gross operating revenues. Telecommunications providers are assessed up to 0.35% 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 0.45%.

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 40%.

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 in 2019 and increase to $3,405 on January 1, 2020.

<u>Budget Environment</u>
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 2019 and 2021 resulting in a revenue loss of 5% per year. Commission revenue from the energy industry will be steady or increase slightly in 2019 compared to 2018. Given that the Commission receives more revenue from the energy industry than it does from the telecommunication industry, the stability 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 2019-21 legislatively adopted budget of $104.6 million total funds is $1.6 million, or 1.6%, above the 2017-19 legislatively approved budget and includes 130 positions (127.75 FTE). The following adjustments were made to the budget:

- $9.1 million increase in Other Funds revenue. SB 68 (2019) increased the maximum allowable fee that can be assessed on a utility's annual gross operating revenue. Specifically, it increased the fee cap on energy and water utilities from 0.30% to 0.45%, and increased telecommunications utilities from 0.30% to 0.35% of gross operating revenue.
- $1.5 million Other Funds and $54,111 Federal Funds expenditure limitation increase to establish seven positions (5.25 FTE) to address workload in the Utility Regulation and Policy and Administration programs.
- $234,347 Other Funds expenditure limitation increase to address increased attorney general costs resulting from increased dockets and docket complexity.
- For statewide adjustments, the PUC budget was reduced $329,020 Other Funds and $6,195 Federal Funds for the program's portion of standard statewide adjustment for state government service charges and Attorney General charges; the Board of Maritime Pilots budget was reduced by $8,711 Other Funds for statewide adjustments.

REAL ESTATE AGENCY

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,735,567	7,781,918	8,586,773	8,499,070
Total Funds	**6,735,567**	**7,781,918**	**8,586,773**	**8,499,070**
Positions	29	29	29	29
FTE	29.00	29.00	29.00	29.00

Overview

The Real Estate Agency (REA) is responsible for the education, licensing and enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate marketing organizations. It licenses and regulates escrow agents, and registers and reviews campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves continuing education providers and develops requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints. The Real Estate Board provides policy input, reviews proposed rulemaking, makes recommendations about the license examination process, approves continuing education provider qualifications, and approves experience waiver requests of license applicants. The Oregon Real Estate Board consists of seven industry members and two public members.

Revenue Sources and Relationships

The Oregon Real Estate Agency is supported by Other Funds. Application fees and fees paid for professional licenses by brokers, principal brokers, and property managers comprise the vast majority of all revenue collected. Charges for services and fines make up remaining revenue, with all civil penalties transferred to the General Fund. Projected revenue is $8.6 million for the 2019-21 biennium, with an ending balance of $1.3 million, equivalent to 3.6 months of operating expenditures.

Budget Environment

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 Real Estate Agency implemented a fee increase in the 2017-19 biennium, intended to provide sufficient operating revenue and ending balance to sustain agency operations for the foreseeable future. The number of licensees has been building since a post-recession low in December 2012. The number of licensees is expected to grow from approximately 23,000 in 2019 to 25,000 by the end of the 2019-21 biennium.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $8,499,070 represents a 9.2% increase from the 2017-19 legislatively approved budget, and a 1% decrease from the 2019-21 current service level (the latter due to standard adjustments to general government assessments, changes to Attorney General rates and assumed vacancy savings). Other than these adjustments, there were no policy option packages with a fiscal impact included as part of the agency's legislatively adopted budget.

BOARD OF LICENSED SOCIAL WORKERS

Analyst: Walker

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,575,651	1,717,671	1,828,013	1,804,612
Total Funds	**1,575,651**	**1,717,671**	**1,828,013**	**1,804,612**
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 2019-21 of $1.8 million is projected to be 10.8% greater than 2017-19 due to continued growth in the number of licensees.

The 2019-21 projected ending balance of $539,970 equals approximately 7.2 months of operating costs. The increase in the ending fund balance is due to a continued increase in the total number of licensees under the Board's jurisdiction.

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 the earlier expansion of the licensee base.

Legislatively Adopted Budget

The legislatively adopted budget is an increase of $86,941 Other Funds (4.8%) over the 2017-19 legislatively approved budget.

BOARD OF TAX PRACTITIONERS

Analyst: Morse-Miller

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,106,894	1,042,020	1,104,037	1,091,888
Total Funds	**$1,106,894**	**$ 1,042,020**	**$1,104,037**	**$1,091,888**
Positions	4	3	3	3
FTE	4.00	2.50	2.50	2.50

Overview

The Oregon Board of Tax Practitioners is a seven-member citizen board that 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 practitioners, 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 legislatively adopted budget projects new revenues at approximately 3.5% more than the 2017-19 legislatively approved budget due to a projected increase in licensees.

The agency also modified their fee structure for licensing examinations for the 2019-21 biennium. Under the new fee structure, both Tax Preparers and Tax Consultants pay a $60 Exam Application Fee for review of their credentials by the Board. Once approved to take a licensing exam by the Board, the applicant pays an Exam Proctoring Fee to a test proctoring company; this fee is $50 for Tax Preparers and $85 for Tax Consultants. This will have a marginal impact on agency revenues.

Budget Environment

The agency's licensee base has increased slightly in the 2017-19 biennium, a trend which is projected to continue into the 2019-21 biennium. However, licensee numbers have fallen overall during the past ten years, leading to a decrease in revenues from licensing and business registration fees. The agency has offset these declining revenues with reduced costs and workload efficiencies. The agency relocated their office to less expensive space, decreased staffing as a result of new IT initiatives, and contracted with an exam proctoring company to reduce administrative tasks.

Legislatively Adopted Budget

The total legislatively adopted budget for the Board of Tax Practitioners is a 4.8% increase from the 2017-19 legislatively approved budget. Statewide adjustments for state government service charges, including Attorney General and Department of Administrative Services assessments, reduced expenditure limitation in the amount of $12,149 Other Funds, resulting in a total budget of $1,091,888 for the Board of Tax Practitioners.

NATURAL RESOURCES

PROGRAM AREA

DEPARTMENT OF AGRICULTURE

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	24,497,951	23,529,248	25,206,997	25,991,367
Lottery Funds	7,077,309	10,360,960	7,366,847	10,568,358
Other Funds	52,663,810	68,154,857	71,565,017	74,372,889
Federal Funds	12,712,955	17,615,623	15,857,812	17,472,153
Total Funds	**$96,952,025**	**$119,660,688**	**$119,996,673**	**$128,404,767**
Positions	527	505	475	509
FTE	378.48	376.86	359.09	383.77

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

For the 2019-21 legislatively adopted budget, 28% of the Department's expenditures are financed by the General Fund and Lottery Funds. Historically, this percentage has been closer to 25%. 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 from the constitutionally dedicated 7.5% of all Lottery revenues that are restricted to wildlife and habitat protection and restoration. These dedicated Ballot Measure 76 (M76) Lottery Funds provide most of the funding for agricultural water quality activities, grants to treat invasive weeds, and insect pest prevention and management. Each of these programs reside within the Natural Resource Policy Area of the Department. Most recently, much of the dedicated Lottery Funds have been provided specifically for eradication efforts of the Japanese Beetle and Apple Moth. While Apple Moth appears to have been eradicated, the work on Japanese Beetle in the NW Portland area is ongoing.

Other Funds account for around 60% of the Department's total revenues. The main source of agency Other Funds 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.

<u>Budget Environment</u>
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.

Additionally, the influx of cannabis producers and products has greatly impacted multiple programs within the agency, from Food Safety and Weights and Measures to the Pesticide Program and the Laboratory. While the Food Safety and Weights and Measures programs have a fee structure that can support the work related to cannabis in those respective programs, the Pesticide Program and Laboratory do not currently have a fee that covers its full costs related to cannabis. As a result, the Department is directed through a budget note to work with the Oregon Liquor Control Commission and the Oregon Health Authority to determine an appropriate funding mechanism for the Department's lab expenses for cannabis cases that are being referred by those respective agencies.

Finally, the federal 2018 Farm Bill provided that the production and distribution of commercial hemp is legal under federal law, which has rapidly expanded the Department's Hemp program and may require additional resources if the workload continues to increase.

<u>Legislatively Adopted Budget</u>
The adopted budget for the Department of Agriculture totals $128.4 million. The budget includes $26 million General Fund, $10.6 million Measure 76 Lottery Funds, $74.3 million Other Funds, and $17.5 million Federal Funds. The total funds budget is 7.3% higher than the 2017-19 legislatively approved budget level. The budget includes 509 positions (383.77 FTE), which is a four position increase from 2017-19.

The General Fund budget is 10.5% increase from 2017-19 levels and a 3.1% increase over the current service level. This increase is due largely to one-time General Fund investments included in legislation outside of the Department's budget bill (HB 5002). General Fund increases include:

- $316,133 to support a limited duration half-time position and startup costs related to passage of SB 883, which directs the State Veterinarian within the Department to be the regulating agency for animal rescue entities. This is one-time, as entity registration fees are anticipated to fund the program.

- $251,043 to support a permanent position related to passage of HB 2437 around removal-fill laws. The funding will allow the Department to oversee the notification review process and conduct site visits related to landowner plans to conduct maintenance activities in traditionally maintained channels. Of this amount, $60,000 is one-time.
- $200,000 of one-time General Fund to support a limited duration position to oversee the preapplication conference with prospective applicants for the cultivation of shellfish, related to passage of HB 2574.

The following increases to the General Fund, totaling $1.2 million were included in HB 5050 as one-time investments:
- $200,000 of one-time General Fund for the predator control program, which provides pass-through money to the U.S. Department of Agriculture Wildlife Services for predator control services in partnership with the Department of Fish and Wildlife (ODFW) and Oregon counties. A similar one-time appropriation was provided to ODFW.
- $300,000 General Fund for additional funding to the Invasive Species Council.
- $100,000 General Fund was added for the collection and testing of water samples from Klamath Lake to analyze for nutrients, including phosphorous which can lead to harmful algae bloom.
- $600,000 General Fund for the replacement of aging lab equipment.

The Department's budget bill, HB 5002, included three permanent fund shifts in the Natural Resources Policy area that moved program support from General Fund on to Other Funds fees or Federal Funds. The fund shifts from the General Fund include:
- $114,349 fund shift for a Plan Conservation Biologist from General Fund to Federal Funds. This fund shift is ongoing and will limit the Department's ability to provide permit and consultation work that is not specific to federal priority projects.
- $370,870 to support Pesticide Analytical Response Center operations was moved from General Fund to Other Funds (funded with pesticide license fees) on an ongoing basis.
- $588,322 General Fund was permanently shifted to M76 Lottery Funds for the Noxious Weed Control program.

Lottery Funds, which are all constitutionally dedicated M76 funds, increased by 43% over the 2019-21 current service level due largely to the addition of $2,581,772 in one-time Lottery Funds to continue Japanese Beetle eradication activities to protect watershed health. Eradication efforts first started in the spring of 2017. While previous eradication efforts for the Apple Moth were completed, efforts to control the Japanese Beetle are ongoing and are expected to be completed during the 2019-21 biennium. A record number of Japanese Beetles were found in the Department's traps in 2017 and recent efforts have shown good progress. ODA estimates the economic impact of allowing the pests to become established in Oregon to be over $45 million in damages. Additional increases to Lottery Funds include $99,881 to provide additional base funding for the Oregon Invasive Species Council, and the fund shifting of $588,322 General Fund to Lottery Funds for the Noxious Weed Control program.

Other Funds are $6.2 million, or 9.1% higher, than 2017-19 levels due in part to the shifting of some program funding from General Fund to Other Funds as outlined above, but also additional staffing both in the Natural Resources Policy area for the Fertilizer Program ($202,741), the Plant Program ($361,762), and Worker Protection Standards ($204,203) and in the Marketing Access Policy area for the Shipping Point Program ($565,098). The Food Safety Program ($343,629) received an additional manager position for the laboratory as well as Other Funds limitation for vendor hosting fees related to the labs' databases, and $332,936 was included across multiple programs to account for increases to legal costs paid by the agency to the Department of Justice. An increase of $200,000 was added to cover the costs of merchant fees for the processing of credit card charges and $200,000 was included as one-time funding related to a pre-design study and site analysis for a possible consolidation site of the five Department labs. Finally, HB 2579 provided the Department with $500,000 Other Funds to distribute as infrastructure and equipment grants to agricultural producers in consultation with the Department of Education as part of the Farm-to-School Program.

The 2019-21 budget includes several increases to fees that were administratively approved by the Department and then ratified by the Legislature. Fee increases ratified in HB 5003 include a 3% increase for Food Safety fees effective July 2019, two 5% increases for Weights and Measures effective July 2018 and July 2019, and changes to fees within the Certifications program to align the fees with U.S. Department of Agriculture (USDA) levels of service provided on behalf of USDA. A restructure of fees from flat registration fee to a fee for each industrial hemp grow site was also approved and is anticipated to generate $725,500 in revenue for that fast-growing program.

In addition to the fees ratified and approved within the Department's budget, the statutory caps on some fees were increased that will allow for the Department to increase fees administratively going forward. This includes increases to the statutory caps on Food Safety fees (HB 2059) and Weights and Measures (HB 2057). Confined Animal Feeding Operation permits were also increased with passage of HB 2061.

While the Department is constantly reviewing and analyzing fee revenue related to program costs and taking steps to administratively increase fees, there are a few programs that will likely need fee increases sooner as a result of changes to the budget environment. The impact of the increased cannabis workload, coupled with a fund shift of costs from General Fund to Pesticide Program fee revenue for the Pesticide Analytical Response Center, and the position related to Worker Protection Standard Training, may require the Department to look at a fee increase to pesticide licenses in the 2020 or 2021 session. The Fertilizer Registration program will likely need a fee increase by January 2022 for this program with the addition of a position approved in their budget. Additionally, with the fund shift from General Fund to license fees in 2017-19 for the Food Safety Program, the current practice of 3% annual fee increases are not sufficient to keep up with rising costs of the program. It is anticipated that a 20% fee increase may be likely in 2020 (effective July 1, 2021) to support the program going forward along with the 3% annual increases.

Federal Funds decreased by less than 1% over 2017-19 budget levels, but does include $1.4 million to continue to provide outreach, education, and technical assistance activities related to a U.S. Food and Drug Administration grant for implementation of new Manufactured Food Regulatory Program Standards called the Food Safety Modernization Act. In 2017-19 USDA provided $2 million for this purpose.

COLUMBIA RIVER GORGE COMMISSION

Analyst: Rocco

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	920,288	1,010,000	1,032,043	1,160,612
Total Funds	**$920,288**	**$1,010,000**	**$1,032,043**	**$1,160,612**

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 2019-21 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, until the 2019-21 biennium budget. The bi-state approved budget added one planner position and now supports eight positions for the 2019-21 biennium, including an executive director, legal counsel, three planners, an administrative analyst, GIS/planner, and an administrative secretary. The new position is a Vital Signs Indicator Land Use Planner that will be used to develop and implement the "Vital Sign Indicators" project which is designed to monitor and track measurable indicators to determine if the agency is effectively implementing the Management Plan for the Gorge. 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.

A similar situation led to an Oregon Emergency Board adjustment to the Commission's budget for the 2017-19 biennium. An $18,000 General Fund increase was provided to the Commission by the Emergency Board in September 2018 to match budgetary changes made by Washington during its 2018 session. Due to timing differences between the sessions of the two states, Oregon was unable to match the budget increase during its 2018 session which led to the approval of the increase in September 2018.

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 2019-21 biennium totals $1,160,612 General Fund. The budget is a 14.9% increase from the 2017-19 legislatively approved budget and is 12.5% above the 2019-21 current service level. The Oregon adopted budget includes $1,128,000 for joint operational expenses and $32,612 for Oregon commissioner expenses. Due to budget development revenue concerns, Oregon initially passed a current service level budget for the Commission. That budget was then supplemented at the end of the Oregon session in HB 5050 with an additional $109,813 General Fund to finance Oregon's share of costs associated with a new Vital Sign Indicators Land Use Planner position ($90,000) and with the replacement of staff laptops and desktop computers ($19,813). This additional appropriation will allow the Commission to hire another staff land use planner since the Oregon action was made to match a previous appropriation made for the 2019-21 biennium 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: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	4,334,048	6,334,048
Lottery Funds	2,980,489	3,023,630	3,023,370	3,023,365
Other Funds	25,284,394	35,609,279	32,689,074	32,812,879
Other Funds (NL)	126,213,739	119,282,861	41,028,718	41,028,718
Federal Funds	2,337,024	2,455,398	2,482,702	2,196,096
Federal Funds (NL)	--	104,000	104,000	104,000
Total Funds	**$156,815,646**	**$160,475,168**	**$83,661,912**	**$85,499,106**
Positions	105	97	84	81
FTE	104.16	93.87	84.00	79.25

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.

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.

The ODOE budget is comprised of five major program units: Energy Planning and Innovation, Energy Development Services, Nuclear Safety and Energy Emergency Preparedness, Energy Facility Siting, and Administrative Services.

- Energy Planning and Innovation - This program 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. The 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.

- Energy Development Services - This program 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. Most of the major programs have sunset or transferred to other state agencies, leaving SELP as the primary program remaining. 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 or 2019-21 biennium. ODOE receives other revenue proceeds from the sale of tax credits for the Renewable Energy Development (RED) grant program; and interest earnings on beginning fund balances. Lottery Funds are allocated to support debt service on outstanding lottery revenue bonds.

- Nuclear Safety and Energy Emergency Preparedness - This program protects Oregonians from exposure to hazards by monitoring radioactive waste cleanup activities at the Hanford nuclear site, preparing and testing nuclear emergency preparedness plans, participating in emergency preparedness planning for Liquefied Natural Gas (LNG) terminals, and overseeing the transport of radioactive material through Oregon. Additionally, the Division manages the state's Petroleum Contingency Plan, which ensures that emergency and essential services receive priority access to fuel during emergency situations. The Division's main revenue source is Federal Funds from the U.S. Department of Energy, which are dedicated to oversight of the Hanford environmental cleanup and to Hanford-related emergency planning and response activities. Other revenue sources include federal grants for transportation-related emergency planning services, fees for transportation of radioactive waste, and charges for emergency planning services.

- Energy Facility Siting - This program works with energy facility developers and operating energy facilities to meet the state's energy needs by ensuring that large power plants, transmission lines, and natural gas pipelines are built to meet Oregon requirements. Siting is a long-term, multi-year endeavor involving multiple stakeholders, site visits, engineering studies, public hearings, and ongoing monitoring from planning, through to construction and operation of the facility. The program staffs the Energy Facility Siting Council (EFSC), coordinates the energy facility siting process, oversees compliance with existing site certificates, and coordinates federal energy siting projects for the state. The 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.

- 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. 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. For the 2019-21 biennium, 34 of the 81 positions within the agency are within the Administrative Services Division, and the agency indirect rate is above 60%.

Revenue Sources and Relationships

Other Funds revenues support 86% of the Department's 2019-21 legislatively adopted budget. Other Funds Nonlimited revenues associated with SELP, including loan repayments and interest and investment earnings, 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 has been authorized for the last two biennia and a $4.3 million General Fund appropriation is required to cover a budget shortfall related to debt service payments.

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 include 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 RED grant program, interest income, and miscellaneous revenues from smaller sources.

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 $14 million in the 2019-21 biennium based on the legislatively adopted budget. To collect this amount, the assessed rate for Fiscal Year (FY) 2020 will be about 0.120%, while the percentage rate in FY 2021 will vary depending on the gross operating revenues. In 2017-19, the rate was 0.134% in FY 2018 and 0.129% in FY 2019.

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 and has seen many of its major programs meet their legislative sunset, transferred to another agency, or repealed including the Energy Incentive Program and Residential Energy Tax Credit (RETC), the Biomass Producer and Collector Tax Credit Program (transferred to the Department of Agriculture), the State Home Oil Weatherization program (transferred to the Housing and Community Services Department), and the Alternative Fuel Vehicle Revolving Fund Program.

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 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. The court ruling found that, while the ESA is a tax, it is not subject to constitutional requirements for bills that raise revenue, and the court also found that ODOE did not meet the statutory procedures to provide a full accounting in the 2015-17 agency request budget. The decision is currently under appeal by the Department. If the appeal is unsuccessful, the 2016 ESA will be refunded to the petitioners. ODOE estimates the settlement payment to be approximately $830,000. Similar lawsuits for the 2017 and 2018 ESA are in abeyance awaiting the outcome of the appeal. It should be noted that without another source of available funds, any settlement payments would need to be financed through increases in future assessments.

The SELP program is 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 $28 million in losses on loans originated between 2007 and 2008, the fund is currently in a deficit position and not forecasted to be self-sustaining. Absent other mitigating strategies, SELP requires a General Fund appropriation to cover debt service on outstanding bonds, the first payment of which will be due April 1, 2021. ODOE currently estimates a potential shortfall of approximately $8 million but it is dynamic and may be reduced based on revenue received. 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 has been provided in two biennia to issue new loans, ODOE continues to administer the existing loan portfolio. 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.

The 2019 Governor's Budget proposed the Department be abolished and its current programs moved into a newly created agency called the Oregon Climate Authority. This new agency would have also included elements of the Carbon Policy Office created in HB 5201 (2018), four positions transferred from the Department of Environmental Quality's Greenhouse Gas Program, and the creation of a carbon cap-and-trade program. This concept was not approved by the Legislature in 2019, although the Department's future remained unknown throughout much of the session and is now currently depending on proposals put forward and the path the Legislature takes toward a carbon cap-and-trade system in the future.

While the future of the Department of Energy is still unclear, 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 2019-21 legislatively adopted budget for this agency is $85 million total funds, including 81 positions (79.25 FTE). Expenditures are 47% less than the 2017-19 legislatively approved budget. A significant portion of the decrease is attributable to the phase out of $78.3 million Other Funds Nonlimited to reflect limited activity in the SELP program. Excluding Nonlimited funds, the budget is a 18% decrease from the 2017-19 legislatively approved budget. Reductions approved in the 2019-21 budget include:

- $505,787 total funds and two positions (2.00 FTE) in the Energy Planning and Innovation Division to limit the amount assessed under the ESA and eliminate a long-term vacant position funded with Federal Funds for which there was insufficient revenue to support the position.
- $785,795 total funds and three positions (3.00 FTE) in the Energy Development Services Division. Two of the positions were within the SELP program held vacant for multiple years in anticipation of restarting lending,

with the third position vacant for nearly a year. There was also a fund shift within the Division to eliminate the Federal Funds expenditure limitation within the program for which there was no supporting federal revenue.

- $834,880 Other Funds and three positions (3.00 FTE) in the Administrative Services Division, including reducing limitation for rent that had not been adjusted to actuals since the agency moved to new facilities, and the elimination of three vacant positions. Two of the positions were Information Technology positions. These reductions were selected to limit the amount assessed under the ESA and to reduce the agency's level of administration and IT position classifications, which are both above statewide executive branch average ratios.
- Small reductions in Services and Supplies costs within the Nuclear Safety Division and the Energy Facility Siting Division to limit the amount assessed under the ESA.

Increases to the budget include $411,789 Other Funds and two limited duration Utility and Energy Analyst 2 positions (2.00 FTE) to provide capacity to handle increased workload related to Energy Facility Siting review applications. Applications are projected to increase 31% from 2015-17 to 2019-21. These positions are supported from cost recovery fees and a small percentage from the ESA.

Additionally, the Department received a one-time General Fund appropriation of $2 million for the solar rebate program established in HB 2618. The $2 million will fund the issuance of rebates and to pay the cost of the Department for implementation and administration of a solar rebate program. Of the $2 million, $1.5 million is available for rebates through Special Payments, with $500,000 available for administration.

Finally, due to the Governor's proposal to abolish the Department, and uncertainty around its future for much of the 2019 session, the 2019-21 budget includes direction for the Department to report back to the Joint Committee on Ways and Means during the 2020 session on its existing programs, key performance measures, and a review of agency administration, the agency's indirect rate, and usage of the ESA.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	38,163,023	48,757,650	48,676,792	53,777,160
Lottery Funds	4,084,180	4,732,711	5,332,415	5,300,822
Other Funds	129,989,706	194,863,032	202,486,131	222,204,270
Other Funds (NL)	107,343,731	134,186,687	138,028,330	148,048,330
Federal Funds	22,268,911	29,266,525	30,144,724	29,410,521
Total Funds	**$301,849,551**	**$411,806,605**	**$424,668,392**	**$458,741,103**
Positions	751	766	735	779
FTE	729.99	737.17	726.84	760.40

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, the federally delegated Title V permit for large industrial sources and the state Air Contaminant Discharge permit for medium and small sources. Other programs within Air Quality include, the Cleaner Air Oregon program, Green House Gas Reporting program, Vehicle Inspection Program, Electric Vehicle Rebate Program, and the Volkswagen Settlement Distribution Program.

- 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 DEQ and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Office of Policy and External Affairs, and the Central Services Division. Central Services consists of Financial Services, Human Resources, Information Systems and Technology, Training and Organizational Development, Public Records, 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 through the 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 the 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 and is the only program that receives dedicated Ballot Measure 76 Lottery Funds from the Oregon Watershed Enhancement Board.

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. DEQ 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.

Finally, Agency Management programs are 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 and has generally been around 21% in recent biennia.

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 and the LRAPA rules must be at least as stringent as DEQ's.

  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. In the 2018 session, SB 1541 further provided the Department with authority to establish permanent rules for the Cleaner Air Oregon program along with a fee schedule. The 2019 Legislature ratified the new fee schedule that will fund the program going forward.

  The Department has been struggling to overcome a backlog in the Air Contaminant Discharge Permits (ACDP) for several years, with a recent Secretary of State audit finding that 40% of these permits were backlogged, attributed in the audit to lack of staffing to handle the increasing volume and complexity of permit writing. Increased staffing funded through a fee increase to the ACDP permits was approved in the 2019-21 legislatively adopted budget discussed further below.

  A relatively new program within the Department is the Electric Vehicle (EV) Rebate Program established through HB 2017 (2017) which requires DEQ to develop and implement a rebate program that incentivizes Oregonians to purchase or lease electric vehicles. A tax on the sale of new electric vehicles funds the rebate program, with the Department of Revenue transferring $24 million in tax revenue per biennium to DEQ. The Department will utilize a third-party vendor for virtually all the rebate program functions at a cost of around $1.3 million, well under the 10% allowable for administrative costs. This rebate program is funded through 2023.

  As part of the settlement with Volkswagen (VW) over its hiding of true emissions for its diesel vehicles, Oregon is eligible to receive up to $72.9 million into DEQ's Clean Diesel Engine Fund over a ten-year period. SB 1008 (2017) authorized DEQ to spend VW monies to provide grants for at least 450 diesel powered school buses to be retrofitted or replaced. This project is anticipated to cost around $18-20 million. The Department anticipates expending around $12 million of the VW settlement funds in 2019-21, with limitation already assumed in the budget. HB 2007 (2019) was approved by the Legislature extending the authorized use of the VW monies beyond school buses, however, no additional expenditure limitation is required to disburse VW settlement funds until the program is able to assess the additional need.

  Finally, the VIP program has a projected revenue shortfall and the Department has requested a fee increase to continue to fund the program at existing operational levels. Without the fee increase, the program would have a reduction of 8 positions (8.00 FTE). Currently the biennial fee for the Portland area is $21 (last raised in 1997) and the fee in the Medford area is $10. The Department proposal would have increased the Portland fee to $25, with the Medford fee increasing by $5 every two years until it also reached $25. The statutes around this program contain an unusual provision that requires the Environmental Quality Commission (EQC) to determine the most cost-effective method of conducting a vehicle pollution control system inspection program before establishing fees for the program. The EQC had not taken any action on that determination prior to session, so the fee increase request was not approved, but the Department and EQC are expected to formally act on a determination that may include a fee increase proposal prior to the 2020 session.

- 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. In the 2019 session, Oregon's water quality and quantity emerged as one of the Legislature's top priorities and resulted in a significant investment of General Fund across multiple agencies, including DEQ's Water Quality program. Additional information on those investments is detailed below.

  The Water Quality Program has had issues with a growing permit backlog for nearly two decades and the NPDES permit backlog had become one of the worst in the nation. The NPDES permit is required by the Clean Water Act to be updated every five years, but when it is not, it automatically becomes "administratively extended," meaning the permit-holder can still operate under the terms of the permit, even if water quality standards have changed since it was originally issued. This is a potential detriment to the water quality of the State and advantage to the permittee. In 2015, the Legislature directed the agency to hire a consultant to review the permitting program. The consultant's report concluded that the Department lacked sufficient staffing to write the permits, but also that the permit-writing crucially relies on other factors, like the availability of reliable data, and the development of water quality standards and Total Maximum Daily Loads (TMDLs). In late 2018, the Department was directed by a Multnomah County court order to issue new updated permits on all existing permits that are 10 years or older and to reduce the overall backlog from the current roughly 80% to under 10% within a decade.

  The Legislature has historically provided a one-time General Fund of $1.5 to $2 million for the onsite septic loan program which provides funding for low cost loans to repair or replace failing septic systems. SB 1563 (2016) established this program and DEQ has used an outside contractor to run the program. Demand for these loans has far exceeded the available funding. The 2019 Legislature approved SB 884, which provides the necessary statutory language for DEQ to utilize CWSRF funds for this loan program. This will allow qualified entities, required to be registered as community development financial institutions, to apply for loans from the state-revolving loan fund, which could then be used to provide the low-cost loans for septic system repair or replacement. This change will provide a more stable and substantial amount of money eligible to be used for onsite septic loans rather than relying on the General Fund. The Department anticipates being able to utilize CWSRF funds once rule-making is completed to implement the statutory change. This will effectively put the loan program on hold until the rules are in place, which is anticipated to be in late 2020.

- 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. Most recently, the 2017-19 budget included $10 million in bond authorization to fund Orphan Site maintenance and remediation. This program is also involved in planning for the clean-up of the Portland Harbor Superfund site.

  Emergency response and preparedness has also been a concern, as DEQ is the lead agency for cleanup of any oil spill or other hazardous materials. A train oil spill in Mosier in June 2016 severely tested the Department's ability to do this job and quickly exhausted its response resources.

- 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 then adjusted accordingly. This can become problematic for a fully staffed Agency Management Division when the programs have numerous vacancies, as it results in less indirect revenue received.

  The Financial Services section has undergone significant turnover in recent years, and the Department finds itself reliant on antiquated and cumbersome systems for budget development and basic reporting. In the 2019 legislative session, DEQ, under the direction of the Department of Administrative Services Chief Financial Office, has been directed by a budget note to undertake a comprehensive review of its accounting and budget structures and its alignment with existing State budget systems. As part of this review the Department is also directed to contemplate better alignment of budget structures with actual organizational structure; alignment of the Department's current use of positions with legislatively authorized positions; establishment of distinct budget operating areas for dedicated funds; an assessment of the Department's current cost allocation system; and an assessment of the current indirect rate and possible solutions to provide a more stable funding model for Agency Management.

  The Environmental Data Management System (EDMS) is a large-scale modernization and process improvement project that is designed to update DEQ's multiple aging electronic (and sometimes paper) systems for management of data, workflow, and reporting to improve the agency's business practices across all programs. When fully implemented, EDMS should provide a common platform for permit tracking and issuance, inspections, enforcement, invoicing, reporting and more. Initial funding for this project was provided in 2017, with additional funds coming from the sale of $5 million in Article XI-Q bonds authorized by the Legislature in 2018. Another $5 million in bonds has been authorized for issuance in May 2020. The most recent total estimated development costs of the project are around $9.5 million.

- 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. Oregon receives around $15 million annually from the EPA to capitalize the CWSRF and must provide a match of 20%, or around $3 million per year.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget for the Department of Environmental Quality is $53.8 million General Fund, $5.3 million Measure 76 Lottery Funds, $222.2 million Other Funds, $29.4 million Federal Funds, and 779 positions (760.40 FTE). The budget total also includes $148 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $46.9 million, or 11.4%, higher than the 2017-19 legislatively approved budget level.

The General Fund budget is $5 million, or 10%, higher than 2017-19. Most of the General Fund increase is a result of the Legislature's overall investment in water quality and quantity issues across multiple agencies. For DEQ, water-related investments included:

- $2.6 million added to significantly improve DEQ's ability to issue water quality permits, work on water quality standards, and develop clean water plans (also known as TMDLs), and includes full or partial funding for 16 additional permanent positions. Some of the funding for the positions will come from a fee increase anticipated to generate $1.2 million Other Funds revenue in 2019-21. The fee increase represents a 17% increase to wastewater permit fees and, along with the General Fund investment, will retain the historical ratio of 60/40 fund split for this program between fees and General Fund support. The corresponding increases to the Other Funds limitation are discussed below.

- $579,590 General Fund was added to continue funding for two positions that monitor and analyze water samples as part of the Oregon Health Authority's rules for drinking water testing around Harmful Algal Bloom. The two positions were originally approved by the Emergency Board at its September 2018 meeting.
- $421,696 General Fund to support two permanent full-time Water Quality Specialist positions to work on the municipal separate storm sewer systems (MS4) permits.
- $232,603 General Fund for a position to support efforts to improve water quality and aquatic habitat specifically in the Klamath Basin where the Department has been working to develop clean water plans.

Other General Fund investments across the Department's programs included:

- $500,000 of one-time funds 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. The Department's base budget includes $172,000 to support local programs regarding wood smoke.
- $407,718 General Fund to support two permanent positions related to passage of HB 2007 which directs the Department to develop a program for registration and titling requirements around retrofit diesel engines and establish a voluntary emission labeling program.
- $250,000 of one-time General Fund was provided in HB 5050 for the Department to provide grants to local communities for planning and implementation of smoke management plans consistent with Oregon's new smoke management rules.
- $392,302 General Fund for costs related to the EDMS project that are not eligible to be paid for with bond proceeds.
- $154,715 General Fund and $130,562 Other Funds to support a permanent internal auditor position.
- $651,246 General Fund reduction associated with the elimination of an administrative support position within the Cleaner Air Oregon program, a vacant groundwater hydrologist, and a regional solution position in the NW Region Office.
- $198,824 was reduced to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

Other Funds Limited are $27.3 million (or 14%) higher than 2017-19 totals. Other Funds changes by program include:

- Air Quality
  - $5.7 million for the EV Rebate program, which will increase the total limitation for the program in 2019-21 up to the full $24 million that will be received from the Department of Revenue for EV rebate distribution and administration.
  - $2.6 million and continuation of 11 positions (11.00 FTE) for the air toxics program known as Cleaner Air Oregon. This is supported by revenue from fees ratified in HB 5018 which is discussed further below.
  - $636,574 to fund 8 permanent positions (3.66 FTE) that will be phased in to coincide with a fee increase to the state ACDP permit. The positions are to specifically address the air quality permit backlog. Six of the permit writers are funded through the fee increase, and two are for Title V work funded with Title V fees.
  - $615,723 was reduced to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

- Water Quality
  - $1.2 million added to support positions related to water quality standards and permits. The funding for these positions comes from a fee increase anticipated to generate $1.2 million Other Funds revenue in 2019-21. The fee increase represents a 17% increase to wastewater permit fees and, along with the

General Fund investment, will retain the historical ratio of 60/40 fund split for this program between fees and General Fund support.
  - $500,000 one-time funding for the Department to hire a contract business analyst to assist with project planning for an eventual replacement of its CWSRF loan management software.
  - $152,143 and a limited duration position to work specifically on the Oregon Department of Transportation municipal separate storm sewer systems (MS4) permit renewal. The two agencies have reached an initial agreement for one year of funding for the position with the possibility of continuing the position into the second year of the biennium.
  - $169,392 to fund a Loan Specialist position to ensure stable and efficient loan services with the CWSRF program.

- Land Quality
  - $3.1 million and three limited duration positions for Solid Waste Orphan Site Account related work around creating an inventory of eligible solid waste disposal sites statewide and commence cleanup work.
  - $461,394 to support two positions that will work on planning, preparedness for, and response to oil and hazardous material spills along high hazard rail corridors. Funding for these positions comes from HB 2209, which establishes an annual fee of 0.05% of gross operating revenues of railroads as well as a fee of $20 on railroad oil tank cars.
  - $258,202 to support two positions, one of which is permanent, to create and oversee a drug take-back program established in HB 3272. After initial start-up, only one position will be needed in 2021-23 and beyond. Revenue for this program will come from fees assessed to manufacturers.
  - $224,097 to support a permanent position that will assist with preparing plans for oil and hazardous material spill response. Funding for this position comes from SB 41, which increased oil spill prevention fees paid by vessels and oil pipelines transporting bulk petroleum.

- Agency Management
  - $2,449,485 and the continuation of 7 limited duration positions to continue the next phase of the EDMS project. This limitation increase will allow the Department to expend the carry-over revenue from the May 2018 bond sale.
  - $1.3 million was reduced across multiple programs to reflect reductions in Department of Administrative Services assessments and charges for service, Attorney General rates, and certain services and supplies.

Other Funds Nonlimited, which are attributed to the CWSRF program, are increased $13.8 million over 2017-19, due largely to the debt service payments associated to meet the state match for up to three federal capitalization grants totaling around $30 million. 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.

The 2019-21 budget includes several increases to fees, either assumed within the Department's budget (HB 5017), fee ratification bill (HB 5018), or in separate policy bills. In addition to the above-mentioned wastewater permit fees, anticipated to generate $1.2 million in revenue in 2019-21, the Department's budget also assumes a 70% increase to the ACDP fee that will generate $3.1 million in 2019-21. This fee will be paid by small and medium industrial sources, of which there are currently around 2,600. This fee increase is expected to fund the program, including the additional positions phased-in in 2019-21, for around six years. Finally, the Department's budget also assumes fee increases to the Hazardous Waste fees paid by hazardous waste generator businesses. These fees, which haven't been raised since establishment in 2007, are anticipated to generate revenue of $1.9 million in 2019-21, and will fund existing staff and prevent the program from operating at a deficit by the end of the biennium.

HB 5018 contained fees administratively approved by the Department that required ratification by the Legislature. This includes air toxics fees which fund the Cleaner Air Oregon program and create an annual base fee and a one-time activity fee. The fees have been set at the statutory cap of 35% over base permit fees paid in 2018 and this cap will be in place until 2024. Underground Injection Control permit fee increases were also included in HB 5018, which represents a 7% increase. These fees have not been raised since establishment in 2007.

Finally, three policy bills were passed during the 2019 legislative session that also increased program fees:

- SB 40 increased Heating Oil Tank fees to generate $368,754 Other Funds revenue that will support the current four positions within the program. Current revenues only support three positions with a fund balance that is insufficient to continue the program. The Heating Oil Tank license fees were last set in 1999 and certification fees were last raised in 2007.
- SB 41 increased the oil spill prevention fees paid by vessels and oil pipelines transporting bulk petroleum. Revenue is anticipated to be just over $1 million in 2019-21. The last time these fees were raised was 2015.
- HB 2209 creates a new revenue stream through an annual fee of 0.05% of gross operating revenues of railroads and establishes a $20 fee on railroad oil tank cars. The gross operating revenue will fund DEQ's high hazard rail work and is estimated to generate $550,737 in 2019-21. The rail car fee revenue is to be distributed to the State Fire Marshal.

There were no significant additions to the Department's Lottery or Federal Funds budgets. Measure 76 Lottery Funds are up 12% from 2017-19 totals but is equal to the current service level budget and Federal Funds expenditure limitation is relatively flat, only 0.5% higher than 2017-19 levels.

DEPARTMENT OF FISH AND WILDLIFE

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	31,162,078	29,458,285	32,776,501	35,094,508
Lottery Funds	4,852,625	5,326,259	5,640,031	7,621,405
Other Funds	149,799,195	193,825,411	194,916,970	203,027,596
Federal Funds	108,738,152	135,922,685	141,948,710	144,438,993
Total Funds	**$294,552,050**	**$364,532,640**	**$375,282,212**	**$390,182,502**
Positions	1,463	1,375	1,333	1,357
FTE	1,197.51	1,154.05	1,131.31	1,154.69

Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits. ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division.

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state:

- Fish Propagation program – Produces fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish.
- Natural Production program – Manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, operates a fish screen program, and administers angling regulations.
- Marine Resources program – Recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species.
- Interjurisdictional Fisheries program – Responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish.

The Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state:

- Wildlife Management program – Manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat program is used to provide both wildlife habitat improvement and improved hunter access to private lands.
- Wildlife Habitat Resources program – Provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat.
- Wildlife Conservation program – Responsible for the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents

88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy and the aquatic invasive species program.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

<u>Revenue Sources and Relationships</u>

The Department relies heavily on Other Funds revenue from hunting and fishing license and tag sales. The Marine Resources program receives the majority of 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 (BPA), the U.S. Department of Commerce through the Mitchell Act, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the U.S. Department of Interior through Sport Fish Restoration funds. The Marine Resources program Federal Funds are primarily from the U.S. Departments of Commerce and 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, BPA through the BPA Wildlife Mitigation Program, and PR funds. The Wildlife Conservation program receives Federal Funds from the U.S. Department of Interior for threatened and endangered species activities through the State Wildlife Grant program and the Wildlife Conservation and Recovery program.

<u>Budget Environment</u>

The agency is facing a number of major issues including declining fish populations, listings and potential listings of 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 Funds 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. The final stage of that fee increase will be implemented in 2020.

Past General Fund reductions in ODFW 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. Additional fund shifts were implemented in the 2019-21 budget, described below, which will place increased pressure on license and tag revenues. As a result, the Department will likely need to investigate fee increases for the 2021 legislative session.

<u>Legislatively Adopted Budget</u>

The Department of Fish and Wildlife 2019-21 adopted budget totals $390.1 million, which includes $35 million General Fund, $7.6 million Measure 76 Lottery Funds, $203 million Other Funds, $144.4 million Federal Funds, and 1,357 positions (1,154.69 FTE). The Department's total funds budget is a 7% increase from 2017-19 levels.

General Fund support is 19.1% higher than approved 2017-19 budget levels. General Fund investments include:

- $3.9 million to implement the Department's Anti-Poaching Campaign, including funding for four trooper positions and a sergeant within the Oregon State Police Fish and Wildlife Division.
- $702,842 to establish three permanent positions to assist with implementation of the Department's Wolf Plan.
- $435,538 to restart production of summer steelhead for the Santiam river waterways.
- $493,657 for a position and costs associated with the monitoring and removal of sea lions at Willamette Falls and Bonneville Dam.
- $314,717 for two permanent positions to assist with implementing the integrated Water Resource Strategy and conduct base-flow studies for fish habitat.
- $200,000 of one-time funds for the predator control program, which provides pass-through money to the U.S. Department of Agriculture Wildlife Services in partnership with the Oregon Department of Agriculture and Oregon counties.

Other Funds expenditure limitation in the 2019-21 legislatively adopted budget is $9.2 million, or 4.7%, higher than 2017-19. Increases to Other Funds expenditure limitation include the following:

- $1,861,767 representing the shifting of expenditures from General Fund to Other Funds license dollars. Fund shifts were made in the Habitat Resources and Wildlife Management programs as well as at Bandon Hatchery and Nehalem Hatchery.
- $4.4 million for repairs to culverts that are used for fish passage. This is part of a four-year agreement with the Department of Transportation to prioritize road crossings.
- $251,910 to continue a position assisting with the Klamath River basin anadromous fish reintroduction plan.
- $214,916 to continue a position providing technical support to model stream flows and fish distributions.
- $193,947 to continue a Sage Grouse Coordinator position working on sage grouse conservation efforts in eastern Oregon.
- $1.3 million to continue operations of the Leaburg Hatchery.

Measure 76 Lottery Funds are increased 43% through a one-time fund shift from General Fund to Lottery Funds in the amount of $1,797,067, to utilize available balance from the May 2019 forecast. Federal Funds expenditure limitation is 6.3% higher than 2017-19 due largely to an increase in the Pittman-Robertson apportionment, funding for field biologists to assist with local implementation of federal Farm Bill programs, and additional funds for grants within the Volunteer Public access and Habitat Incentive Program, which provides grants to private landowners to allow public hunting access and improve habitat on private lands.

DEPARTMENT OF FORESTRY

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	102,048,469	135,840,659	91,726,893	90,604,264
Lottery Funds	6,987,642	2,601,001	2,605,450	2,543,451
Other Funds	270,189,305	450,358,882	249,425,178	260,068,337
Other Funds (NL)	1,731,479	--	--	--
Federal Funds	16,914,057	33,907,251	35,532,252	35,483,276
Total Funds	**$397,870,952**	**$622,707,793**	**$379,289,773**	**$388,699,328**
Positions	1,174	1,181	1,159	1,153
FTE	867.47	867.89	852.49	848.99

<u>Overview</u>

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 and the management of Board of Forestry and Common School Trust lands. 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. The Private Forests program also oversees the operation of the tree-seed orchard.

<u>Budget Environment</u>

Fire protection continues to dominate the budget environment for the Department. The sustained pace and magnitude of wildfires has put a financial strain on the agency and exposed operational and organizational issues that require immediate attention and ongoing solutions. Other significant issues include forest health, climate change, environmental protection, forest management policies, and the general economic climate.

Firefighting on ODF protected lands for the past six seasons (2013-2018) has cost an average of $72 million per year. The six seasons prior to that (2007-2012), average costs were just over $9.3 million per year. This nearly eight-fold increase in magnitude has put a significant strain on the operational and financial structures at the agency. Although up to half of the costs on average have been recoverable through the Federal Emergency Management Agency (FEMA), U.S. Forest Service (USFS), Bureau of Land Management (BLM), or insurance, there is a disconnect between the payment of costs and the recovery of those costs that has been further compounded by organizational issues and personnel capacity issues that have resulted in financial distress for the agency coming in to the 2019-21 biennium.

The evolution of the operational structure at ODF has resulted in some managerial inefficiencies at the agency that are particularly manifest in the centralized business programs and the Fire Protection Division. The Fire Protection Division is comprised of twelve forest fire protection districts, with a "headquarters" function operating out of the Salem campus. All of the fire protection districts were at one time operated as independent organizations by the private land owners in the districts. Adequate protection against the start or spread of fire on or from those lands was provided by the landowners as required by statute through the independent fire protection associations. As the cost of providing fire protection through the associations became unsustainable for the landowners within certain districts, associations contracted with the state forester to operate the fire protection function within the districts on behalf of the associations. These associations are called "non-operating" associations. Nine of the twelve fire protection districts are run by ODF on behalf of non-operating associations via contract. The associations continue to exist, and they have boards and board members that continue to make operational and financial decisions on behalf of the associations. Some of the non-operating districts own and maintain their own motor pools, real property, and buildings. The three remaining fire protection districts are independently operated by "operating" fire protection associations. These are completely independent organizations and are not part of the Department, nor are they state agencies or special districts.

The Coos, Douglas, and Walker Range operating fire protection associations cover a substantial portion of south-western Oregon, a perennial high-risk wildfire area. These operating fire protection associations employee people directly and therefore are not subject to state personnel rules or hiring practices. Employees of the operating associations are not union represented. The operating associations have separate management, accounting, purchasing, and financial management systems. Although the operating associations are required to have annual financial statements certified by a Certified Public Accountant, there is no explicit contractual obligation to allow ODF, the Secretary of State, or any third party to audit their financial transactions or operations. Equipment owned by the operating associations is not required to conform to any standardized requirements as to manufacture or interoperability with the Department. Operating associations have access to and make use of state information technology resources, but do not have oversite by the state on information technology use or security policies.

So, what the casual observer sees as a unified organization, is functionally more like a holding company with nine semi-independent operations and three independent operations working in contractual partnership. This is reinforced again by the fact that the boundaries of the fire protection districts are not the same as the forest districts that are used for the State Forests and Private Forests Divisions. There appears also to be issues with making or implementing managerial decisions with the locus of control divided among the various entities.

There are two items that provide perennial challenges for the Agency Administration program. The first is that each of the fire protection districts or associations has a board elected by represented landowners in the district that develop a district budget on an annual basis that is entirely outside of the biennial budget development and implementation process for which the Agency Administration program is responsible. Although the individual annual budget proposals must be approved by the State Forester, the proposed budget may not comport with the strategic aims or the tactical plans of the agency as a whole. The annual budgets, once approved, have to be "shoe-horned" into the biennial budget, with over-runs being reflected as budgetary shortfalls at the district level that must be picked up by the following year's budget. This also may include requests for additional General Fund appropriations to accommodate the shortfall. The second, and compounding issue is that the fire protection districts have positions directly budgeted and working in the programs where their chain of supervision leads either explicitly or implicitly to the district board and not to agency management. This is particularly the case for certain administrative positions including accounting, budgeting, accounts payable and receivable, human resources, and purchasing.

There also appears to be some financial risk that is shifted from the operating districts to ODF. Although the operating districts are financially independent (administratively), fire costs in those districts are paid to vendors by the associations under the same 45-day time structure adopted by the agency. This often means that funds are passed to the operating association by ODF that are attributable to obligations of the Oregon Forest Land Protection Fund (OFLPF), FEMA, USFS, BLM, or the General Fund, prior to ODF receiving funding from those fund sources. This effectively makes ODF a bank that finances the costs of emergency fire protection in the operating associations to the possible detriment of ODF's other operations. This situation is exacerbated by the ability of the Emergency Fire Cost Committee (EFCC) to allocate OFLPF emergency fire liabilities to specific fires. The EFCC can effectively direct the available OFLPF funding to operating districts with emergency fire costs rather than allocating the funding across all districts with fire costs, providing the operating districts a disproportionate cash flow advantage.

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.

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 (DSL) 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. A complaint was filed in June 2018 and alleges that timber harvest, road construction, use, and maintenance on Board of Forestry owned state forestlands are causing take of threatened Coho salmon on the Clatsop and Tillamook State Forests in violation of the federal Endangered Species Act

The Department 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. Trial is set for October 24, 2019 and is expected to last 3 weeks. As of October 1, 2019, pre-trial motions have all been filed and the agency is preparing for the trial.

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 (DLCD) and the Oregon Department of Environmental Quality (DEQ) in the federal fiscal years beginning October 1, 2017, was due, in part, to concerns about the efficacy of the riparian rules developed by the Oregon Board of Forestry. This issue has not been resolved to date.

The Legislature, during the 2017 session, authorized the sale of certificates of participation (COPs) to provide net proceeds of $100 million and approved the establishment of an Other Funds expenditure limitation for ODF of $100 million plus roughly $1 million for bond issuance costs for the payment of monies to finance the release of all or a portion of the Elliott State Forest from restrictions resulting from ownership of that forest by the Common School Fund. No debt service was required to be in the prior biennium's budget since the bonds were issued in the spring of 2019, however General Fund debt service in the 2019-21 biennium for Elliott State Forest COPs is $14,591,040.

Legislatively Adopted Budget
The 2019-21 total funds budget for the Department of Forestry is $388,699,328 and supports 1,153 positions (848.99 FTE). This amount is $234 million less than the 2017-19 legislatively approved budget, however, the 2017-19 legislatively approved budget included $109.1 million in emergency fire costs and $100 million in Other Funds expenditure limitation for bond proceeds related to the Elliot State Forest. After removing these extraordinary items, and one-time funding provided in 2017-19, the net operational budget change between the 2017-19 biennium and the 2019-21 biennium is an increase of roughly $7.46 million, or 1.9%.

Agency Administration and Centralized Business Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,921,496	5,880,472	22,191,327	19,747,765
Lottery Funds	6,987,642	2,601,001	2,605,450	2,543,451
Other Funds	47,675,221	166,947,463	64,885,972	64,243,822
Other Funds (NL)	1,731,479	--	--	--
Federal Funds	1,105,364	2,633,233	2,780,898	2,799,114
Total Funds	**$62,421,202**	**$178,062,169**	**$92,463,647**	**$89,334,152**
Positions	145	132	139	140
FTE	139.09	138.14	137.36	138.49

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 – 111 positions, 108.76 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 one 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 (ODFW), and the Oregon Parks and Recreation Department (OPRD).
- 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, the Toledo facility replacement, the Gilchrist Forest land acquisition, and the Elliott State Forest.

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. 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 of costs 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 52.39%, Private Forests 12.71%, State Forests 29.96%, Equipment Pool 4.34%, and Federal Forest Health 0.60%. 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 48.58% 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 ODFW and OPRD for participation in the radio pool.

Revenue to pay debt service comes from the General Fund (83.7%), Lottery Funds (12.9%), and Other Funds (3.4%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; the State Forests program from the Forest Development and Common School Lands Funds; and the Private Forests program from the Forest Products Harvest Tax. Generally, costs are prorated among the funding sources of the programs that occupy the specific facility.

Federal Funds revenue in the Agency Administration program is nearly exclusively due to the administration of federal grants by the Partnership Development Section. This program manages roughly $20 to $30 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 432 buildings or other facilities with a current replacement value of $229.6 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' 2019-21 total funds budget is $89,334,152 and includes 140 positions (138.49 FTE). The net change from the 2017-19 legislatively approved budget is a decrease of $88.73 million, or 49.83%. The vast majority of this change is due to the phase-out of Other Funds expenditure limitation totaling $101 million for bond proceeds related to the Elliot State Forest offset by an increase in General Fund for the debt service on those bonds. The General Fund budget for the program totals $19,747,765, which is a $13.87 million, or 235.8%, increase from the 2017-19 legislatively approved budget.

The precipitous fall in Other Funds expenditure limitation in the Agency Administration program is due to the phase-out expenditures related to the partial decoupling of the Elliott State Forest from the Common School Fund. Following the abandonment by the State Land Board of a proposed sale of the Elliott State Forest, the Legislature, during the 2017 session, authorized the sale of COPs to provide net proceeds of $100 million and approved the establishment of an Other Funds expenditure limitation for ODF of $100 million plus roughly $1 million for bond issuance costs 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. No debt service was required to be in the prior biennium's budget since the bonds were issued in the spring of 2019, however General Fund debt service in the 2019-21 biennium for Elliott State Forest COPs is $14,591,040.

Although there was not a significant impact to the program's expenditures, the budget recognizes a reorganization of the Administrative Services Division. The reorganization moves the Administrative Services Division chief to a Deputy Director for Administration position that continues management of the Division and adds supervision of Public Affairs, Human Resources, and Internal Auditing functions. The remaining operational divisions including Fire Protection, State Forests, and Private Forests remain under the Deputy Director for Operations (Deputy State Forester). The former Administrative Services manager position is utilized as an Assistant Deputy Director for Administration. Six additional positions were repurposed including the elimination of redundant managerial positions in favor of the creation of two accounting positions directly working on FEMA claims and payments processing. An additional Information Specialist Position (1.00 FTE) is also established. The agency believes that by clearly bifurcating the operational and administrative functions of the agency that it can more effectively and efficiently manage the organization. The net budgetary result of the reorganization is a reduction of $4,924 Other Funds expenditure limitation and the addition of 1 position (1.27 FTE).

Capital Construction Other Fund expenditure limitation covering six years in the amount of $3,832,965 was provided to the agency during the 2017 legislative session (SB 5506) for the replacement of a facility in Toledo that houses both Fire Protection and Private Forests programs. The building will be shared with the Oregon Department of Transportation (ODOT). A portion of the bonds to fund the construction of the building were issued during the prior biennium with a par-value totaling $900,000, the remaining $2,932,965 required for the project will be funded by bond proceeds from bonds authorized to be issued in the 2019-21 biennium. The debt service on the bond is anticipated to be $290,463 total funds ($168,904 Other Funds and $121,559 General Fund).

Fire Protection

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	79,691,252	111,987,734	52,152,969	51,701,898
Other Funds	132,257,298	178,759,523	76,635,706	76,368,736
Federal Funds	8,274,020	16,799,716	17,756,258	17,711,687
Total Funds	**$220,222,570**	**$307,546,973**	**$146,544,933**	**$145,782,321**
Positions	674	689	677	675
FTE	391.16	394.66	390.67	390.59

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 13.17 million acres of public and private forestland, about half of the state's total forest acreage, and 3.17 million acres of grazing land for a total of 16.34 million acres protected. Of the total acreage protected, 12.53 million is privately owned, 1.42 million is state and local government land, and 2.39 million is federal, mostly 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 on privately owned lands. 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. The subsidization of the agency administration costs results in an average cost share on private land of 55% General Fund and 45% private landowner assessments. With private lands representing roughly 77% of the total acres of lands protected, private landowner assessments represent about 34.5% of the program's budget.

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 combined with public and private landowner dollars through the OFLPF to provide retardant-dropping air tankers, water-dropping helicopters, and other resources that can be placed where the immediate or projected threat is highest. Firefighting costs for large fires are covered through a mix of General Fund, Federal Funds, public and private landowner funds, and a catastrophic wildfire insurance policy.

- Base Protection – ODF's base protection program is delivered through local Forest Protection Districts. The establishment of the forest protection districts is codified in ORS 477.225. Revenue to support the Fire Protection Division (including the fire protection districts) comes from a combination of General Fund, Federal Funds, and Other Funds via forest patrol assessments on private and public forest landowners. Statute outlines a pro-rata cost per acre formula segregated between timberland east and west of the crest of the Cascades and grazing lands. The funding mechanism for the landowner assessment is codified in ORS 477.230. Forest patrol assessments charged against subject landowners vary by district, as each district budget is developed independently. Non-public landowner's contributions are capped at 50% of the per-acre rate established for the fire protection district in which the lands lie; the shortfall is funded with the General Fund. The remaining public landowners, including local, state, and federal entities, receive no General Fund match and pay the full cost of their per-acre fire protection assessment. In addition, the costs of the Agency Administration Division that are allocated to the Fire Protection Division are not shared between the General Fund and the private landowner assessment; those costs are borne entirely by the General Fund and public landowner assessments. The General Fund also provides a biennial subsidy of $2 million to offset a portion of the cost of private landowner assessments for fire protection on low-productivity lands.

- 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 OFLPF. Additional revenue information is provided in the following section for the OFLPF. In the event of a qualified fire, 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 OFLPF 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 $10.9 million in fiscal year 2020. 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 ($1.73 million, 15.7%); 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) ($833,198, 7.6%).
  - Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol) ($716,402, 6.5%).
  - Surcharge of $47.50 for each improved tax lot ($7.42 million, 67.7%).
  - Interest Earnings ($265,079, 2.5%).

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 in a fire year are shared between the General Fund and the OFLPF 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 $17.7 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 USFS 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.

Smoke Management/Fuels Program – This program receives its funding from registration and burning fees collected from public and private landowners, contractual payments from other government agencies, and landowner assessments.

<u>Budget Environment</u>

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 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.

Firefighting on ODF protected lands for the past six seasons (2013-2018) has cost an average of $72 million per year. The six seasons prior to that (2007-2012), average costs were just over $9.3 million per year. This nearly eight-fold increase in magnitude has put a significant strain on the operational and financial structures at the agency. Although up to half of the costs on average have been recoverable through FEMA, USFS, BLM, or insurance, there is a disconnect between the payment of costs and the recovery of those costs that has been further compounded by organizational issues (as discussed in the Agency Overview section) and personnel capacity issues that have resulted in financial distress for the agency coming into the 2019-21 biennium. ODF has "carried" the cost of emergency fire suppression by utilizing temporary lines of credit provided by the State Treasury and using operating cash on hand from revenues to the forest development fund, harvest tax revenues, federal revenues, and OFLPF balances while awaiting General Fund appropriations and federal agency reimbursements. When the average fire costs were smaller, the impact to the cash flow of the agency and its non-fire operations were minimal. With the sharp rise in costs, the agency lacks the financial capacity to carry these costs and that lack of resources has highlighted operational shortfalls in how the costs are accounted and recovered. Just prior to the beginning of the 2020 fiscal year, ODF had to restructure an emergency firefighting line of credit with the State Treasury to extend the due date of that line of credit to better align with anticipated recovery of funds to alleviate immediate cash flow concerns. Without a steep reduction in average fire costs, the agency will continue to have cash flow issues even if operational issues are resolved unless a fire cost funding facility is established outside of the agency's operational cash reserves.

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, those first $20 million in costs being shared between the OFLPF and the General Fund, but total 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 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 $3.38 million with no claims made against the 2016 fire season policy. The 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. The fire insurance premium for the 2018 fire season increased to $3.58 million. Although the 2017 fire season did not produce net costs in excess of the $50 million policy retention, costs once again exceed the $20 million shared cost obligation of the OFLPF and leaving the OFLPF with roughly only $400,000 available for insurance premium costs before hitting its statutory cap on expenditures for the year. General Fund of $1,764,690 was included in the agency's budget for the 2018 fire year insurance premium costs, leaving a shortfall of $1.42 million after applying the available funding from the General Fund and the OFLPF. That shortfall was not resolved pending the resolution of 2014 fire season costs which may have been overestimated, and overfunded by the General Fund, by up to $2.8 million. For the 2019 fire season, the premium rose once again to $3.73 million. Available funding from the OFLPF totaled $532,747. The remaining $3.2 million obligation was funded in HB 5019 (2019).

Legislatively Adopted Budget

The Fire Protection Division 2019-21 total funds budget is $145,782,321 and includes 675 positions (390.59 FTE). This amount is 52.6% lower than the 2017-19 legislatively approved budget due to the phase-out of $64.4 million General Fund and $102.8 million Other Funds for costs related to the 2017 and 2018 fire seasons. The General Fund budget for the program totals $51,701,898, an 11.5% increase from the 2017-19 legislatively adopted budget.

The legislatively adopted budget for the Fire Protection Division is substantially equal to the current service level for the program with minor adjustments that were made to all agencies for inflation, Attorney General costs, and state government surcharges.

In addition to the 2019-21 budget for ODF, the budget bill for the agency (HB 5019) established a special purpose appropriation of $8 million General Fund to the Emergency Board. This appropriation to the Emergency Board is for ODF for the purpose of fire severity resources ($4 million), anticipated catastrophic wildfire insurance premium costs ($2 million) and supplemental Fire Protection program personnel costs due to extended fire seasons ($2 million).

A budget note was adopted by the Legislature regarding the appropriation to the Emergency Board for supplemental Fire Program personnel costs:

> The special purpose appropriation made to the Emergency Board for supplemental Fire Program personnel costs due to extended fire seasons is intended to only be allocated to ODF in the event that an early fire season, or an extended fire season warrants the need for additional or extended employment of personnel that the agency cannot accommodate with budgetary resources otherwise.

State Forests

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	200,000
Other Funds	80,792,866	93,706,996	94,886,246	106,513,000
Federal Funds	3,041,880	878,085	909,460	909,381
Total Funds	**$83,834,746**	**$94,585,081**	**$95,795,706**	**$107,622,381**
Positions	231	248	220	216
FTE	222.37	224.77	210.82	205.92

<u>Program Overview</u>

The State Forests program manages 762,722 acres of forestlands including state forests owned by the Department and forestlands owned by the State Land Board for the benefit of the Common School Fund. ODF owns around 95.7% (729,718) 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 4.3%, or 33,004 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.

<u>Revenue Sources and Relationships</u>

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 2019-21 biennium from forest product sales on Oregon Board of Forestry forestland is $234.36 million. The table to the right presents the revenue transfers to counties in FY 2018 from timber harvests on Board of Forestry Lands.

FY 2018 County Share of Revenue from Harvests on BOF Lands	
County	Amount
Benton	$750,958
Clackamas	$618,091
Clatsop	$32,267,665
Columbia	$970,033
Coos	$54
Douglas	$791,755
Josephine	$42,279
Klamath	$2,494,103
Lane	$4,510,877
Lincoln	$4,081,104
Linn	$3,989,617
Marion	$1,145,705
Polk	$72,031
Tillamook	$17,336,819
Washington	$11,820,105
Total	$80,891,196

Council of Forest Trust Land Counties Annual Report for Fiscal Year 2018

Revenues from harvests on Common School Trust forestland managed by the State Forests Division are anticipated to be $6.76 million in the upcoming biennium. A management fee is charged to the State Land Board for the operation and management of the Common School Trust forestlands. The anticipated revenue to ODF from management fees charged to DSL is $4.82 million in the 2017-19 biennium. This provides $1.94 million in net income to the Common School Fund.

OPRD transfers roughly $1.6 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.

ODF is currently defending a class action lawsuit – brought by certain 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 a breach of statutory conduct due to the current Board of Forestry management plan not maximizing revenues as a result of 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 original Linn County judge hearing the complaint retired over the 2019 summer and a new judge was assigned to hear the complaint. The new judge assigned also took over as presiding judge of the Linn County Circuit Court. Trial is set for October 24, 2019 and is expected to last 3 weeks. As of October 1, 2019, pre-trial motions have all been filed and the agency is preparing for the trial.

The Court has determined there is a statutory contract, but the terms are ambiguous, so a jury will be asked to decide: what the terms of the contract are, if there are damages, and the amount of the damages, if any.

A settlement conference was requested by the plaintiffs and discussions have been ongoing since early summer. This is a step required by the courts to ensure a trial is needed, it does not necessarily indicate that the state is moving toward a settlement in the case, but the settlement conference may determine if the expense of a trial can be avoided. Cost as of September 2019 for ODF are $1,986,993, including Department of Justice legal fees ($1,102,789); and expert witness, data storage, and document processing fees ($884,204). Through the completion of the trial, total costs are expected to approach $2.5 million.

A second lawsuit being defended by the State Forests Division was filed by the Center for Biological Diversity, Native Fish Society, Cascadia Wildlands, the Pacific Coast Federation of Fishermen's Associations, and the Institute for Fisheries Resources. The complaint was filed in June 2018 and alleges that timber harvest, road construction, use, and maintenance are causing take of threatened Coho salmon on the Clatsop and Tillamook State Forests in violation of the federal Endangered Species Act. The Oregon Forest Industries Council and Tillamook County are intervenors in the case. Unlike the county class-action suit, this case is covered by the Department of Administrative Services, Risk Management.

The case has been assigned to U.S. District Court, Portland Division. A hearing was held in January on certain motions and the presiding judge directed the plaintiffs to amend their complaint to include more specificity. In May, the plaintiffs amended the complaint, and at the same time the Pacific Coast Federation of Fishermen's Associations and the Institute for Fisheries Resources withdrew from the lawsuit.

ODF received the First Amended Complaint (amended to integrate the rulings from January) in May 2019 and filed an answer to the complaint in July. The amended complaint includes fiscal year 2020 planned timber sales, as well as other sales going back to fiscal year 2015. Over 60 total named sales are included in the amended complaint.

The plaintiffs seek a commitment to stop logging in landslide prone areas, new road construction, and an increase in riparian buffers, or that the State obtain a Habitat Conservation Plan (HCP). The plaintiffs have not yet asked the court for a preliminary injunction, so ODF operations will continue as planned, consistent with its operational policies and procedures. The State Forests Division continues to pursue an HCP and has begun phase 2 of the HCP project, following a Board decision in November 2018 to continue that work.

Legislatively Adopted Budget

The State Forests program 2019-21 total funds budget is $107,622,381 and includes 216 positions (205.92 FTE). This is a $13 million (or 13.8%) increase from the 2017-19 legislatively approved budget. The increase in Other Funds expenditure authority for log sort sales accounts for nearly all of the overall increase in funding.

The budget adds an additional $12 million Other Funds expenditure limitation for the State Forests program and works in tandem with a technical budget adjustment that moves authority between expenditure categories; increasing contracted services and decreasing capital expenditures. Between the two actions, the budget provides a total of $30 million in additional professional services contract expenditure authority that allows the Division to expand log sort sales with the goal of increasing net income from state forests. The additional expenditure authority allows the agency to independently contract for activities that are associated with a log sale such as building roads, replanting, etc., that would have normally been netted out of a log sale; i.e., the purchaser of the logs doing these activities and reducing the bid on the value of the logs to account for the cost of the activities. In this way, a larger up-front revenue is recognized, but a larger expenditure limitation is required to account for the cost of contracting out the individual activities.

A reduction of $643,664 Other Funds expenditure limitation and the elimination of four positions (-4.90 FTE) from the State Forests Division is included in the budget. This reduction recognizes a workforce restructuring in the Division. The restructuring is a result of a multi-year effort to create a sustainable organization through a combination of business improvements and organizational structure changes. The reorganization involves 55 individual positions with an agency-wide net budget reduction of $650,423, total funds, and the elimination of 7 positions (-4.77 FTE).

A one-time General Fund appropriation of $200,000 to ODF, for the State Forests Division, was approved to purchase a tract of timber land adjacent to the Santiam State Forest, for inclusion in the Santiam State Forest. The current owner has asserted that access to the roughly 160-acre parcel is limited do to the condition and availability of a logging road crossing existing state forest property which would require rebuilding and was the subject of a legal dispute between the current owner and the Department of Forestry. The purchase of the property is intended to resolve the dispute.

A technical adjustment re-established $534,435 Other Funds expenditure authority in the State Forest Division to restore an ongoing personal services reduction that was included in the agency's base budget in error. The reduction had been taken to align the State Forests budget with anticipated ongoing resources, however, that reduction was duplicated by a personal services reconciliation adjustment resulting from a permanent finance plan that had been approved, but not accounted for at the time of budget development.

Private Forests

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	17,435,721	17,972,453	17,382,597	18,954,601
Other Funds	9,463,920	10,944,900	13,017,254	12,942,779
Federal Funds	4,492,793	13,596,217	14,085,636	14,063,094
Total Funds	**$31,392,434**	**$42,513,570**	**$44,485,487**	**$45,960,474**
Positions	124	112	123	122
FTE	114.85	110.32	113.64	113.99

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.

The J.E. Schroeder Tree Seed Orchard is also now operated by the Private Forests program. The orchard, previously operated under the State Forests program, is located near St. Paul, Oregon and 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. BLM is also a cooperator in one of the orchards.

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
1999-2001	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	7.6718	$10,688,725
2019-21	7.2289*	* $10,518,299
* 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 2019-21 biennium. Timber harvesting on private lands is forecasted to continue at roughly the same pace and volume as the prior biennium. Workload of the Division is anticipated to continue at the current service level with notifications of operations (intent to conduct a forest operation), plus reviewing and commenting on written plans describing operating methods on sensitive sites continuing. The number of on-site inspections for pre-operation planning and reforestation auditing is also expected to be maintained at the prior biennium level.

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 NOAA and 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 DLCD and DEQ due, in part, to concerns about the efficacy of the riparian rules developed by the Board of Forestry. This issue still remains unresolved.

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 Forest Protection Act 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 2019-21 total funds budget is $45,960,474 and includes 122 positions (113.99 FTE). This amount is an 8.11% increase from the 2017-19 legislatively approved budget. The General Fund budget for the agency totals $18,954,601, a 5.46% increase from the 2017-19 budget.

Generally, the legislatively adopted budget for the Private Forests Division continues funding for the program at the current service level. In the prior biennium, the base-budget funding for the management and eradication of Sudden Oak Death (Phytophthora Ramorum) in Oregon was amended to include an additional General Fund appropriation of $450,000 for Sudden Oak Death eradication treatments. For the current biennium, the Legislature provided an additional one-time General Fund appropriation of $1.7 million to continue the activities related to slowing or stopping the spread of the pathogen.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,806,968	5,3595,949	5,119,592	2,534,180
Other Funds	4,917,107	7,731,528	7,252,383	2,817,896
Federal Funds	5,410,687	6,040,857	6,225,649	2,902,495
Total Funds	**$15,134,762**	**$19,132,334**	**$18,597,624**	**$8,254,571**
Positions	45	43	42	39
FTE	42.43	42.92	41.92	19.46

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 and outreach functions and houses 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. The program is funded through fees, and no General Fund, Lottery Funds, or Federal Funds support in the program. 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. The program is reliant on developing funding partnerships with local, state, and federal agencies. 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 and LIDAR work is generally determined by the priorities of its funding partners. While the Department is a regular recipient of grants from the U.S. Geologic Survey, Federal Emergency Management Agency, and National Oceanic and Atmospheric Administration, federal funding will always be a somewhat volatile revenue source that makes up roughly 33% of the agency budget. When project or grant revenue does not materialize, the Department must rely on General Fund to cover program costs.

The MLRR program is financed primarily from Other Funds derived from aggregate mine, oil and gas, and geothermal permit and production fees. The program currently administers around 1,000 active mining permits. The fees related to mining operations were last increased by the 2015 Legislative Assembly. Additionally, the MLRR program is coordinating the process for permitting the first chemical gold mine in Oregon, located in Malheur County, where Department expenditures related to the permitting are reimbursed under contract by the mining company.

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 Department's GS&S program pursues projects that are primarily fee-for-service driven through the LIDAR program and many projects are seasonal in nature. In the past, General Fund has been used to pay for administrative positions and to provide matching funds for project grants, while the highly technical project positions are budgeted with Other and Federal Funds. The budgeting of positions in this manner creates problems when project funding is not sufficiently available and General Fund must be utilized to backfill position costs until projects or grants are realized.

Additionally, the Department has had problems effectively evaluating potential projects and identifying costs involved. This has led to project cost overruns for added project deliverables that are believed to be beneficial to the Department, stakeholders, or the public, but which are not identified within the scope of the project agreement and therefore must be funded with General Fund. The Department was directed by a budget note in 2015 to review its operational model for the GS&S program and determined that the current model is the best fit, 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. This rigorous oversight did not occur, resulting in the agency overspending its General Fund appropriation for the second time in the last four years, bringing into question the viability of the Department's current structure and funding mechanism.

The Department's MLRR program has 11 positions that administer the permitting program. A budget note in 2015 directed the Department to undertake a comprehensive review of the MLRR program, including cash flow analysis of the current fee structure, to ensure that it is sufficient to support program expenses. This review revealed that the program did not have a standard indirect cost methodology to fund its share of centralized services costs and that the program was not recovering its costs related to the permit application process. The program has been working to streamline and modernize its permitting process and reducing the backlog of permits, although at a cost of not having capacity to conduct biennial inspections of mine sites, which has fallen to 6%. The fee increases approved in 2015 and implemented in 2016 were determined to be no longer sufficient to cover both the program and indirect costs beyond 2019-21 with the program fully staffed.

Moreover, the program's oversight of the permitting process related to the proposed chemical gold mine in Malheur County has come under increased scrutiny. Without having the internal capacity to provide oversight of this project, the Department received a position on loan from the Department of Environmental Quality and utilized contractors to administer the process. While the program expenditures related to the permitting are reimbursed under contract by the mining company, there were significant invoicing delays and many of the expenditures were challenged, resulting in reimbursements not being received and the program having cash flow issues. These cash flow issues have impaired the Department's ability to determine an appropriate level of fee increase necessary to fund the program.

Legislatively Adopted Budget

The legislatively adopted budget for 2019-21 is $8.3 million total funds and includes 39 positions (19.46 FTE). This reflects a one-year budget for the agency due to financial uncertainty caused by the Department having cash flow issues in both of its programs. The budget is comprised of $2.5 million General Fund, $2.8 million Other Funds, and $2.9 million Federal Funds. This is a 56.9% reduction in total funds from the 2015-17 legislatively approved budget. The General Fund portion of the 2019-21 legislatively adopted budget is 52.7% lower than 2017-19, and the Federal Fund portion is 52% lower based on the known Federal Fund grant opportunities identified by the Department. The total Other Funds portion of the 2019-21 legislatively adopted budget is down 63.6% from the 2017-19 budget. The MLRR program is anticipated to have a beginning balance of under $300,000, which is approximately less than two months of operating expenses for the 2019-21 biennium. The proposed fee increase for the MLRR program was not approved by the Legislature given the uncertainty around the permitting process related to the proposed chemical gold mine and its impact on program cash flow. The Department will need to develop a fee increase proposal for the 2020 Legislature to consider in order to have sufficient cash flow going forward.

The 2019-21 budget for the Geologic Survey and Services Program includes the elimination of five positions that will provide the General Fund savings necessary to fund two new financial support positions within the agency to provide additional grant and contract oversight. The positions eliminated include a Natural Resource Specialist 5 position, two Natural Resources Specialist 4's, a vacant Earth Sciences Field Geologist, and a vacant Public Affairs Specialist. The General Fund made available by eliminating these positions will be used to fund financial support positions, including a Grants Accountant 3 and a Procurement and Contracts Specialist 2. These new positions will be financed 100% General Fund and will provide additional grant and contract oversight for the GS&S program to eliminate project overspending. Additionally, the existing Fiscal Analyst 1 position is reclassified to a Fiscal Analyst 3 position to provide more financial oversight support to the Chief Financial Officer. Finally, there is a fund shift for the existing Information Systems Specialist 8 position budgeted from Other Funds to General Fund, as there was no Other Funds revenue source to support the position.

The 2019-21 legislatively approved budget includes three budget notes. The first budget note requires DOGAMI to provide monthly financial reports to the Legislative Fiscal Office and the Department of Administrative Services (DAS) Chief Financial Office. The second budget note directs the Department to review the projected revenue and expenditures for the MLRR program and report to the Legislature in the 2020 session with a detailed fee increase proposal to fund the existing program, including appropriate indirect costs, that will also provide a sufficient ending fund balance. And finally, the third budget note directs the Governor's Office and the Department of Administrative Services to report to the Joint Committee on Ways and Means in the 2020 session on a detailed strategic plan for the future of the agency, including evaluating if the Department should continue to exist as an independent agency or recommendations to abolish the Department and move the individual programs to other entities.

DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	13,211,189	15,160,953	13,906,741	20,231,675
Other Funds	546,079	1,785,545	616,655	1,460,817
Federal Funds	4,260,687	6,487,739	6,484,945	6,755,041
Total Funds	**$18,017,955**	**$23,434,237**	**$21,008,341**	**$28,447,533**
Positions	58	58	54	64
FTE	56.46	56.9	52.79	62.09

Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). DLCD administers Oregon's statewide land use planning program and Oregon's federally-approved coastal management program.

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 preservation of farm and forest lands, citizen involvement, housing, and natural resources. DLCD personnel assist the Land Conservation and Development Commission in the implementation and adoption of those land use goals in local planning. By law, each of Oregon's cities and counties are required to have comprehensive development plans and also to adopt the zoning and ordinances necessary to implement those plans. Approval of local plans is done through an "acknowledgement" process by LCDC. After a plan is officially acknowledged, local plans can be modified as necessary through plan amendments, or through the periodic review process. 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 system administered by the agency. DLCD also oversees coordination between state and local planning activities generally and operates the coastal zone management and natural hazards mitigation programs.

In addition to a main office in Salem, the agency maintains field offices in Portland, Eugene, La Grande, Tillamook, Newport, Medford, 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. Over the past few biennia, the agency has moved away from providing grant funds directly to local planning units and towards a model of using grant funding to provide contracted planning resources with DLCD providing co-management of the contracted services. In particular, this is done when local planning units do not have the resources to manage the contracted services directly, or when economies of scale are realized from a single contract providing assistance for multiple planning units.

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.

<u>Revenue Sources and Relationships</u>
General Fund comprises roughly 71% of the 2019-21 total funds budget for DLCD. Discounting the $1.64 million General Fund dedicated to local planning grants and $6.7 million General Fund dedicated to one-time projects, General Fund supports about 59% of the agency's ongoing operational budget.

Federal Funds account for 33.7% of the total funds budget of the agency exclusive of one-time funded programs and local grant funding. 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. This program continues to be subject to a 30% reduction in funding due to ongoing concerns by the federal agencies with riparian protections under the Oregon Forest Practices Act. These programs require state matching funds which are provided by in-kind expenditures by DLCD and other participating state agencies.

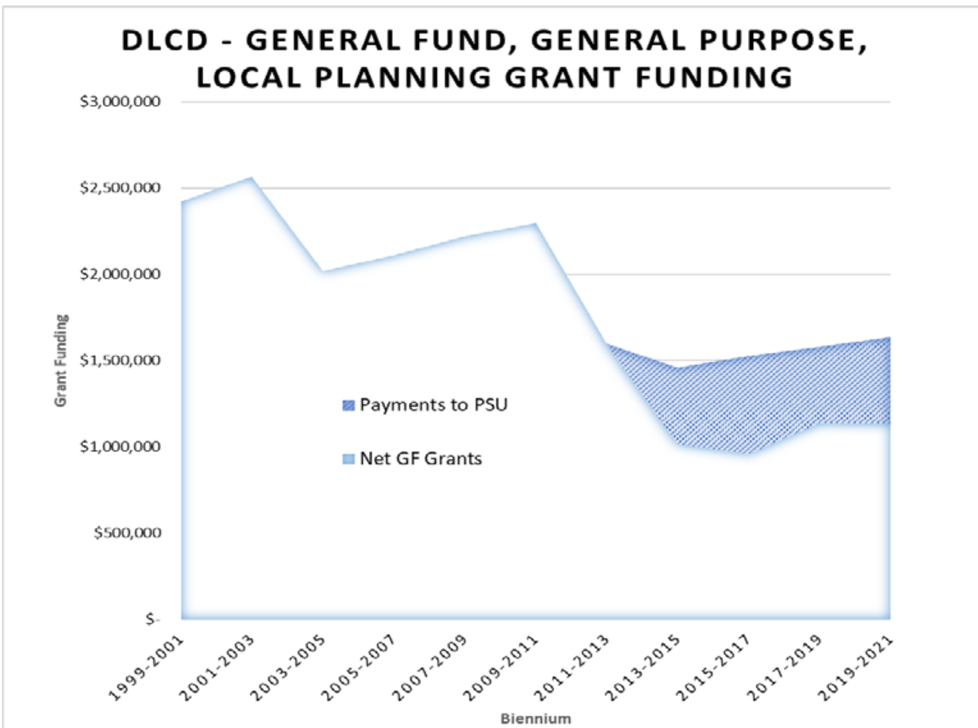
DLCD receives Federal Funds from FEMA for natural hazards planning, specifically to support DLCD as the state coordinating agency for the National Flood Insurance Program, and for floodplain management activities. Just prior to the current biennium, FEMA shifted the program slightly to retain responsibility for assisting local governments in adopting new flood maps, making a federally-funded position at DLCD redundant. Therefore, DLCD is no longer applying for federal grant funds to support that position, although it is still receiving funds under the program for specific projects.

Other Funds make up the smallest portion of the DLCD budget, accounting for just over 5% of the total funds budget and 7.3% of the ongoing operational budget. For the 2019-21 biennium, Other Funds revenues include funding to support hazard mitigation planning by local governments and to update the statewide natural hazard mitigation plan. This is federal funding 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. Housing and economic development are two rapidly evolving issues that provide both opportunity and challenges for local governments. Many of these local governments are constrained by their available resources for adequate planning to take advantage of these opportunities or to address these challenges. DLCD estimates that only about one-third of the demand for planning assistance by local governments will be able to be addressed with the agency's resources.

Grant funds 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 general-purpose local assistance grants has been declining.



The passage of HB 2253 (2013) required the Portland State University (PSU) Population Research Center to produce population forecasts for specified geographic areas throughout the state no less than once every four years. To accomplish this, PSU creates forecasts on a schedule of 25% of the subject areas each year. HB 2253 provided an appropriation to DLCD of $250,000 in the 2013-15 biennium for paying PSU for the population forecast. This funding amount has been continued in subsequent biennia (including inflationary adjustments) and is included in the grant funding for local planning grants as expressed in the graph above. Although HB 2253 provided $250,000 for this purpose, the actual costs of the population forecasts have averaged $488,867 per biennium from 2013 to 2019. The estimated cost for the 2019-21 biennium is $505,000. With total non-specified, General Fund local grant funding totaling $1,638,830, this leaves an estimated net amount available to award of $1,133,830. 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.

In addition to the general-purpose General Fund local planning grant funding, the Legislature has provided periodic appropriations of grant funding for specified purposes; particularly in the previous and current biennium. During the 2018 legislative session, a one-time increase of $300,000 in the General Fund appropriation made to DLCD for the local government grants program was approved for the provisioning of technical assistance grants to eastern Oregon counties for conducting economic opportunity analyses. HB 4006 (2018) provided a one-time appropriation of $1,730,000 General Fund to fund contracted technical assistance to local governments through housing needs analysis, code audit assistance, code updates, and housing strategy implementation plans.

Legislatively Adopted Budget

DLCD's 2019-21 total funds budget is $28,447,533 and includes 64 positions (62.09 FTE). This amount represents a 21.4% increase from the 2017-19 legislatively approved budget. General Fund, which makes up roughly 71.1% of the agency's budget, totals $20,231,675, a 33.5% increase from the 2017-19 legislatively approved budget.

A General Fund appropriation of $200,000 was made to the agency in HB 2574. The bill requires DLCD to receive, consolidate, and organize public records of federal, state, or local governments concerning shellfish mariculture in Oregon and to make that information publicly available.

Two additional pieces of substantive legislation account for nearly all of the increase in the General Fund budget for the agency. Each of the following bills included a General Fund appropriation for technical assistance and planning grants for the local governments impacted by the measures. An additional General Fund appropriation of $2,005,563 was made in HB 5050 to support the operational needs of the agency, including the establishment of 7 limited-duration positions (6.00 FTE).

HB 2001 outlines regulations related to middle housing, including where middle housing is allowed and how it can be regulated. Cities are directed under the measure, to update their land use regulations or amend comprehensive plans in order to encourage middle housing. The bill directs the Land Conservation and Development Commission to develop a model middle housing ordinance which local governments must use if they have not developed their own housing ordinance. The measure appropriates $3.5 million General Fund to DLCD to provide technical assistance to local governments to assist with the adoption of regulations or amendments to comprehensive plans as required.

HB 2003 directs the Department of Land Conservation and Development, the Housing and Community Services Department, and the Department of Administrative Services to develop a methodology to assess existing housing stock and housing needs throughout the state and conduct a regional housing needs analysis by September 1, 2020, and to identify the number of housing units needed to accommodate anticipated populations in each region over the next 20 years. The bill also directs cities with populations over 10,000 to develop and adopt a housing production strategy, which is to be submitted to the Department of Land Conservation and Development for review and approval. A $1 million General Fund appropriation to DLCD was included in the measure to assist cities with the development of their housing production strategies.

The budget continues funding ($846,294 Other Funds and $242,014 Federal Funds) and supplants the three limited duration positions that were authorized in the 2017-19 biennium with two permanent Planner 2 positions (2.00 FTE), one limited-duration Planner 2 position (1.00 FTE), and one permanent Planner 3 position (1.00 FTE). The funding will be used to support hazard mitigation planning by local governments and special districts to update the statewide natural hazard mitigation plan which is due for re-approval in 2020. Federal Funds revenue for the program comes from grants from FEMA to assist communities in working with the National Flood Insurance Program. Other Funds revenue 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. The required state match will be met through existing General Fund expenditures and from local governments.

An increase in the Coastal Zone Management grant from NOAA provided $273,060 Federal Funds, allowing for the addition of one permanent Planner 4 position (1.00 FTE) in the agency's budget to update Oregon's Climate Change Adaptation Framework. The position will work with local governments, state agencies, and federal agencies to incorporate climate change adaptation into local and state plans and projects.

Reductions of $169,822 General Fund and $227,796 Federal Funds and the elimination of two vacant positions (1.70 FTE) are included in the agency's budget. As noted in the revenue section above, FEMA realigned the federal Risk MAP program so that funding that was previously provided to DLCD for a coordinator position to work with local governments as they adopted new natural hazard maps is no longer available for that purpose. Therefore, the Federal Funds expenditure limitation and position have been eliminated. The budget also includes the elimination of a vacant planner position funded with General Fund.

LAND USE BOARD OF APPEALS

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,817,892	2,014,924	2,083,485	2,061,858
Other Funds	24,228	33,700	34,981	34,981
Total Funds	**$1,842,120**	**$2,048,624**	**$2,118,466**	**$2,096,839**
Positions	6	6	6	6
FTE	6.00	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

The General Fund supports just over 98.3% of LUBA's 2019-21 biennium budget. 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 2019-21 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 the intervener fee of $100 are set in statute. LUBA estimates that it will receive $103,100 from these fees during the 2019-21 biennium, which is consistent with handling about 187 appeals and 140 intervening parties annually; the same as the prior 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 budget for the agency is dominated by personal services expenditures. The Board is statutorily limited to three members, so this portion of the budget moves in step with personal services inflationary changes. A large increase in the number or complexity of cases in any given year 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 2012 to 2015, LUBA experienced its lowest average caseloads since 1995, but is beginning to show an upward trend as the economic recovery continues.

Legislatively Adopted Budget

The budget for the Land Use Board of Appeals totals $2,096,839 and 6 positions (6.00 FTE), including $2.06 million General Fund and $34,981 Other Funds. The budget increases 5.6% from the legislatively approved budget for the 2017-19 biennium and continues funding for the agency at the current service level.

DEPARTMENT OF STATE LANDS

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	242,904	5,000,000	--	--
Lottery Funds	--	--	589,920	--
Other Funds	32,278,901	55,124,108	45,471,053	54,079,207
Other Funds (NL)	13,184,428	19,234,249	10,627,890	10,627,890
Federal Funds	1,541,286	2,466,188	2,225,284	2,295,209
Total Funds	**$47,247,519**	**$81,824,545**	**$58,914,147**	**$67,002,306**
Positions	112	113	106	115
FTE	111.00	110.67	105.50	113.00

Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund (CSF). 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 – 97 positions, 95.50 FTE. Consists of Land Management, Aquatic Resource Management, Business Operations and Support Services, and the Director's Office.
- Oregon Wetlands Revolving Fund – 0.50 FTE. Established by the 1987 Legislative Assembly to provide financial resources to acquire wetlands banking and wetlands mitigation sites; to accomplish wetlands restoration, enhancement, and creation; and to cover administrative costs.
- South Slough National Estuarine Research Reserve – 18 positions, 17.00 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. Fee and leasing revenue are projected to generate $17.2 million in the 2019-21 biennium.

The value of unclaimed property held in trust within the Common School Fund was $628.7 million as of the end of fiscal year 2018. Net investment income from the unclaimed property totaled $55.1 million. Net revenues to the Common School Fund from the unclaimed property program are expected to be reduced in the upcoming biennium due to the implementation of SB 1566 (2018). Under the measure, DSL is required to, in any given year, transfer the lesser of: investment earnings associated with the unclaimed property program from the prior year, or the net inflows of unclaimed property less investment expenses of the Common School Fund, and operating expenses of the program in the prior year, to the School Districts Unfunded Liability Fund (SDULF). Transfers for the 2017-19 biennium total $11.54 million (represents a single year due to effective date of the bill). The transferred funding is appropriated to the Public Employees Retirement Board to be used as a pooled account for reducing the PERS liabilities of certain school districts.

Constitutional revenue is primarily investment income on that portion of the of the Common School Fund derived from assets generated from periodic land sales and other revenue generated from property holdings for deposit in the Common School Fund.

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, other than the Elliott Sate Forest, and projects 18.1 million board feet in harvest in the 2019-21 biennium from all remaining Common School forest lands under ODF management. Budgeted revenues from timber sales on CSF lands managed by ODF are $6.76 million and budgeted costs of ODF management on those lands is $4.82 million.

Common School Fund revenue distributions to the Department of Education were $118.5 million in the 2017-19 biennium. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget. Estimated distributions for the 2019-21 biennium are $116.7 million.

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 $4.27 million for the 2019-21 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.

<u>Budget Environment</u>

The Common School Fund (CSF) is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the state's land for the support of schools, plus land for a state university. Revenues from these lands and any associated mineral, timber, or other resources are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres.

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. 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.

From 2010 through 2018, the distribution target had been fixed at a rate of 4% of the past three years' rolling average CSF balance when the average balance of the fund has increased by 11% or less and 5% when the average balance has increased by 11% or greater. Following the passage of SB 1566 (2017), the State Land Board was presented an updated distribution study that was requested by State Treasury staff from a third-party consulting firm. Based on a number of factors including the target asset allocation of the fund, growth of unclaimed property inflows, and the distribution provisions of SB 1566, the report recommended that the distribution policy for the earnings of the Common School Fund to the State School Fund be limited to no more than 3.5% of the balance of the Common School Fund in order to maintain the stable real asset value of the fund.

The Portland Harbor Superfund Site remains an 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 potential exposure to liability for the cleanup costs are due to state-owned submerged and submersible lands in the area as well as contaminations due to run-offs from Oregon Department of Transportation (ODOT) owned bridges, abutments, and adjoining lands.

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. A record of decision was issued by EPA in January of 2017 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 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 as estimated by the Oregon Department of Justice through June 2019 are $27.47 million, $14.35 million of which has been reimbursed from insurance claims.

In addition to the funding for the legal defense costs above, SB 5530 (2017) established the Portland Harbor Cleanup Fund to support 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 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. During the 2017 legislative session, a $5 million appropriation of General Fund (HB 5006, 2017) and an allocation of $3 million in lottery bond proceeds were made for deposit in the fund (SB 5530, 2017). The agency's 2017-19 budget included the establishment of an $8 million Other Funds expenditure limitation from the Portland Harbor Cleanup Fund, corresponding to the funding allocated. The lottery bonds authorization and funding allocation to the Portland Harbor Cleanup Fund was repealed by SB 5542 (2019) and the General Fund appropriation to the fund was reduced by $3 million in HB 2377 (2019), leaving $2 million of net funding provided.

Four initial projects were initiated with the intent of being at least partially funded from the Portland Harbor Cleanup Fund:

- Feasibility Study for a possible landfill in St. Helens for Portland Harbor contaminated sediments; cost share of $500,000.
- Pre-remedial design investigation for field studies and sampling necessary to support remedial design at Willamette Cove location; cost share of $400,000.
- Data management plan and institutional controls assurance and implementation plan development; cost share of $600,000.
- Two-year support for Multnomah County Health Department's fish advisory community outreach and education program; cost share of $115,000.

These programs, along with an environmental consulting contract providing assistance with the projects above, account for $1.765 million of the net funding provided.

During the initial weeks of the 2019 legislative session, the Department, in partnership with ODOT and the City of Portland negotiated a settlement with EPA limiting the state's liability for remedial design work. As a part of that settlement, the state agreed to provide up to $12 million in funding to pay a portion of the per-acre cost for remedial design work by potentially responsible parties who volunteered to fund that work prior to EPA issuing an administrative order for the work to be completed. The City of Portland provided a matching funding commitment under the same terms. In order to facilitate the agreement and consolidate the state's non-legal-defense expenditures of DSL and ODOT, transfers of $12 million each were made from the State Highway Fund and the Common School Fund to the Portland Harbor Cleanup Fund in HB 5046 (2019). An increase in expenditure limitation of $6 million was provided to DSL from the Portland Harbor Cleanup Fund in HB 5050 (2019) to facilitate the transfer of a portion of that funding to a joint trust fund held by the state and the City of Portland to fulfill the joint obligations to EPA under the negotiated agreement.

A significant change in the operations of DSL will take place in the 2021-23 biennium due to the passage of SB 454 during the 2019 session. The bill transfers the administration of the Unclaimed Property, Unclaimed Estates, and Escheating funds from DSL to the State Treasurer (OST), with various operative dates beginning July 1, 2021. DSL must transfer to OST all records, property, and employees primarily engaged in those duties.

The Unclaimed Property Program has been operated by DSL for the last 62 years since first being assigned the administration of the program by the Legislature in 1957. DSL has dedicated program staff for the program and staff who provide indirect program administrative support. Dedicated or direct program support includes 13 positions (13.00 FTE) with an estimated cost of $2.8 million per biennium. There are approximately 27 indirect support positions for the program that charge a portion of their budgeted full-time equivalent position costs to the program. These include such position duties as: executive management, human resources, procurement, accounting, budget, facilities, and information technology. DSL has estimated that there is a total of 9.00 FTE spread across the 27 positions at a cost of roughly $1.8 million per biennium for personal services that is charged to the unclaimed property program for indirect support.

In addition to the personal services costs of the program, there are direct and indirect operational costs for services and supplies, including information technology resources, that are estimated to be $2.8 million per biennium. Although some of these costs will directly transfer, a portion will have to be reallocated from residual DSL programs.

The transfer of the program to OST will create a funding shortfall at DSL for the indirect support positions and the indirect services and supplies costs. DSL will need to either consolidate and eliminate positions to accommodate the shortfall or reallocate costs of these positions to other programs. With the operative date for the program transfer of July 1, 2021, the Legislative Fiscal Office (LFO) anticipates a detailed transition plan to be developed that is reflected in the agency's proposed budget for the 2021-23 biennium through appropriate policy option packages that clearly outline the reduced direct program revenues and expenditures resultant from the transfer and the reallocation or elimination of residual indirect costs.

Legislatively Adopted Budget

The 2019-21 biennium total funds budget for DSL is $67,002,306 and 115 positions (113.00 FTE). This is a $14.8 million, or 18.11%, reduction from the 2017-19 legislatively approved budget. The reduction is due primarily from the elimination of one-time expenditures that were authorized in the prior biennium.

In addition to ongoing program operations, the budget includes funding for continued protection of the state's interests in the cost allocation and natural resource damage assessment work for the Portland Harbor Superfund Site. The funding includes anticipated Department of Justice legal expenses for defending the state's interests specifically connected to the State Land Board's jurisdiction and authorities, continues a 1.00 FTE limited-duration Natural Resource Specialist-4 project coordinator position, and provides funding for professional services contract work for environmental consulting and remediation project design development. This funding has been included in the agency's budget since the 2011-13 biennium as shown in the following table.

	Personal Services for Project Coordinator	Attorney General	Professional Services	Total
2011-13 (pop 103)		200,000	500,000	700,000
2013-15 (pop 101)	171,374	708,027	2,635,369	3,514,770
2015-17 (pop 101)	186,916	639,633	3,912,000	4,738,549
Dec. 2016 E-board	0	1,625,000	2,084,000	3,709,000
2017-19 (pop 101)	218,857	2,500,000	3,607,680	6,326,537
2019-21 (pop 101)	251,873	2,293,604	4,218,582	6,764,059
Total	**$829,020**	**$7,966,264**	**$16,957,631**	**$25,752,915**

As detailed in the Budget Environment section above, expenditure limitation totaling $7.765 million in addition to the legal defense costs detailed here was provided for remediation design work and initial project work within the site through the Portland Harbor Cleanup Fund.

The budget includes $4.06 million for costs related to the Elliott State Forest. These costs include: $2 million for a third-party management contract that covers road maintenance, reforestation, and general property oversight of the forest, $1.58 million for the continued development of a habitat conservation plan and public affairs consulting, and $382,000 for a forester position and project management position related to the forest.

The budget includes expenditure limitation of $450,000 to continue the planning phase for the replacement of the agency's Land Administration System. The current system was initially deployed in 1999. The foundational technologies that underpin the current system are no longer supported. The agency received Stage Gate 1 endorsement from the State Chief Information Office in July 2018 to continue the planning phase for the project. This continues funding that was approved during the 2018 legislative session but augments that original package by eliminating the support for a limited-duration project management position and providing funding for contracted professional project management. Two budget notes were included with the agency's budget bill in association with the funding.

Budget Note #1 directs DSL to work with the Office of the State Chief Information Officer (OSCIO) to conduct a comprehensive assessment of the agency's information technology-related operations. A report on this comprehensive assessment is to be submitted to LFO in December 2019 and jointly presented by DSL and OSCIO to the Joint Legislative Committee on Information Management and Technology and to the Joint Committee on Ways and Means during the 2020 legislative session. Budget Note #2 directs DSL to conform with standard protocols related to IT projects and report to OSCIO and LFO throughout the project. This includes contracting with outside consultants as needed and completing all documentation and reporting requirements.

The budget includes an increase in the agency's Other Funds expenditure limitation of $432,746 and the authorization to establish two limited-duration positions to continue the implementation of 2015's SB 912, which directed DSL to inventory historically filled lands in tidally-influenced waterways and legally navigable waterways, providing notification to property owners of any remaining state interest in those lands. The agency anticipates that the project will be completed by the end of 2025.

Other Funds expenditure authority of $355,776 and the establishment of two limited-duration positions is included in the budget for the implementation of HB 2436 to develop a proposal for the state's partial assumption of section 404 of the federal Clean Water Act.

Federal Funds expenditure limitation of $137,000 and Other Funds expenditure limitation were included to allow the agency to expend grant funds awarded in the prior biennium for activities at the South Slough National Estuarian Research Reserve (SSNERR). An additional increase in Other Funds expenditure limitation of $178,476 and the authority to establish a seasonal, part-time position providing summer season programming for visiting school-aged children and a part-time Information Specialist position to provide GIS and data management services for the reserve was also included in the budget.

MARINE BOARD

Analyst: Walker

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	25,175,987	27,142,592	27,428,626	28,362,989
Federal Funds	5,420,164	6,633,131	6,260,265	6,317,622
Total Funds	**30,596,151**	**33,775,723**	**33,688,891**	**34,680,611**
Positions	41	39	38	39
FTE	39.37	39.00	38.00	38.75

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 (81.8% of total funds) and Federal Funds (18.2% of total funds). The agency receives no General Fund or Lottery Funds support. Other Funds revenues for the 2019-21 biennium are projected to total $28.8 million and Federal Funds are projected to equal the amount of budgeted federal fund limitation $6.3 million.

The agency's primary Other Fund revenue sources are:

- Marine fuel taxes – Each year, the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. 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. HB 2080 (2019) raised registration fees from $4.50 per foot to $5.95 per foot and the title fee from $50 to $75. The Legislature last adjusted these fees in 2015.
- 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.
- Nonmotorized watercraft establishes fees on nonmotorized boats over ten feet dedicating the revenues to the Waterway Access Fund within OSMB for the purpose of awarding grants. Grants will fund land acquisition for, construction of, and maintenance of boating facilities that serve non-motorized boaters; as well as grants to public bodies, tribal governments, and non-profits for boater safety education courses and purchasing boat equipment to use for projects that reduce barriers for under-served communities.

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 2019-21. 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. 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.

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 $225 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.

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 2019-21 legislatively adopted budget of $34.6 million total funds is a slight increase (2.6%) from the 2017-19 legislatively approved budget. The budget includes 39 positions and 38.75 FTE.

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. 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%) 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 8 staff positions (5.20 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 governments 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 (30.5%) and includes 8 positions and 8.75FTE.

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 and including 3 position (1.20 FTE).

The following bills were enacted by the 2019 Legislative Assembly and directly affect the Board:

HB 2080 raised the biennial boat registration fee from $4.50 a foot length to $5.95 a foot length, a 32% increase. The title fee is raised from $50 to $75 (50%), and the fee for a boater education card is increased from a maximum of $10 to a maximum of $20 (100%). The measure repeals the requirement for an Oregon registered motorboat to carry an aquatic invasive species permit. Instead, $5 is added to the registration fee and that $5 is transferred to the Aquatic Invasive Species Prevention Fund under ORS 830.585. The measure is projected to raise $3.2 million per biennium and will fund Law Enforcement grants, Facilities grants, and current operations.

SB 47 established new fees on nonmotorized boats over ten feet dedicating the revenues to the Board's Waterway Access Fund for the purpose of awarding grants. Grants will fund land acquisition for, construction of, and maintenance of boating facilities that serve non-motorized boaters; as well as grants to public bodies, tribal governments, and non-profits for boater safety education courses and purchasing boat equipment to use for projects that reduce barriers for under-served communities. The legislation also establishes a new 1-week waterway access permit which would dedicate $1 of every permit sale to the Aquatic Invasive Species Prevention Fund. In addition, the bill directs the Board to return to the Legislative Assembly in 2020 and 2021 and report on the implementation of the program. When fully enacted the measure will generate approximately $1 million per biennium.

HB 2352 created a towed watersports program within the State Marine Board (OSMB) and authorizes the collection of a fee for the issuance and renewal of a two-year towed watersports endorsement decal. The program must provide safety and best practices education, address wave management techniques, compile information regarding motor boats for which the towed watersports decal was issued, set minimum standards of competency for licensing, create a towed watersports endorsement course, and create an equivalency examination to substitute for the course. The program will charge a fee of $95 for each bi-annual towed watersport endorsement. With an estimated 5,000 transactions per biennium, the projected revenue for the program is $475,000 Other Funds per biennium.

PARKS AND RECREATION DEPARTMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	228,729	273,580	--
Lottery Funds	78,504,001	108,856,337	109,690,538	116,785,574
Other Funds	102,346,202	101,632,140	98,722,769	130,655,323
Federal Funds	7,266,847	16,422,002	10,294,950	16,685,823
Total Funds	**$188,117,050**	**$227,139,208**	**$218,981,837**	**$264,126,720**
Positions	846	867	867	870
FTE	576.11	596.05	599.79	602.55

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 113,000 acres. These include 56 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 – (6 positions, 6.00 FTE) Responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, agency program review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (79 positions, 77.57 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 – (9 positions, 9.00 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 – (748 positions, 481.98 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 – (28 positions, 28.00 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 revenue would need to be over $123 million to trigger the larger local grant percentage. If this amount was just met, net revenues available for operations would be less than currently available by roughly $5 million.

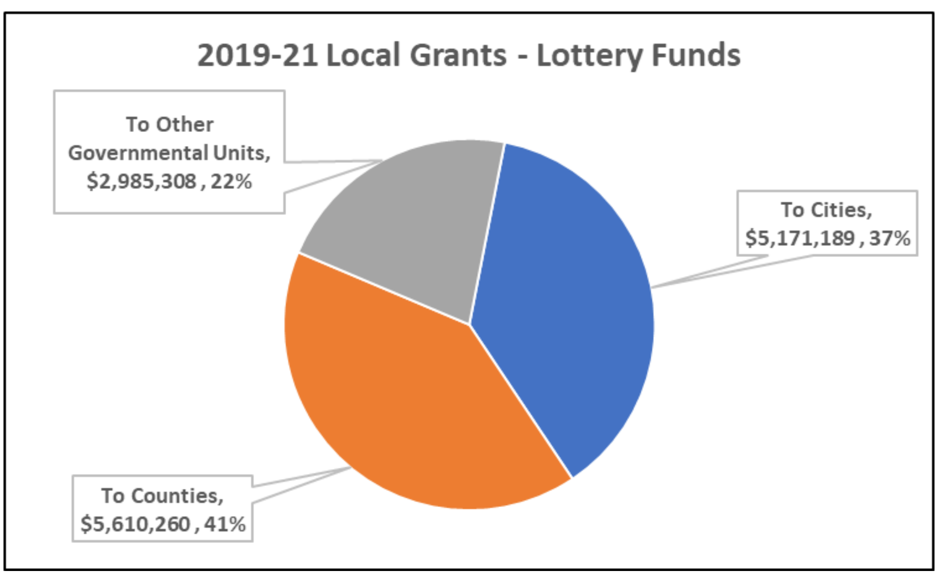
The following display shows funding amounts for 2009-11 through projected revenue for 2019-21. In 2009-11, the local grant amount is less than 12% of the net lottery available because the measure passed and was effective mid-biennium.

Parks Dedicated Lottery Funding

	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21*
$ Millions	$ 81.5	$ 81.0	$ 79.6	$ 92.7	$ 96.1	$ 110.4
Percent Change from 2009-11 Biennium		-0.6%	-2.4%	13.7%	17.9%	35.4%
12% for Local Grant Program	$ 6.5	$ 9.7	$ 9.6	$ 11.1	$ 11.5	$ 13.2

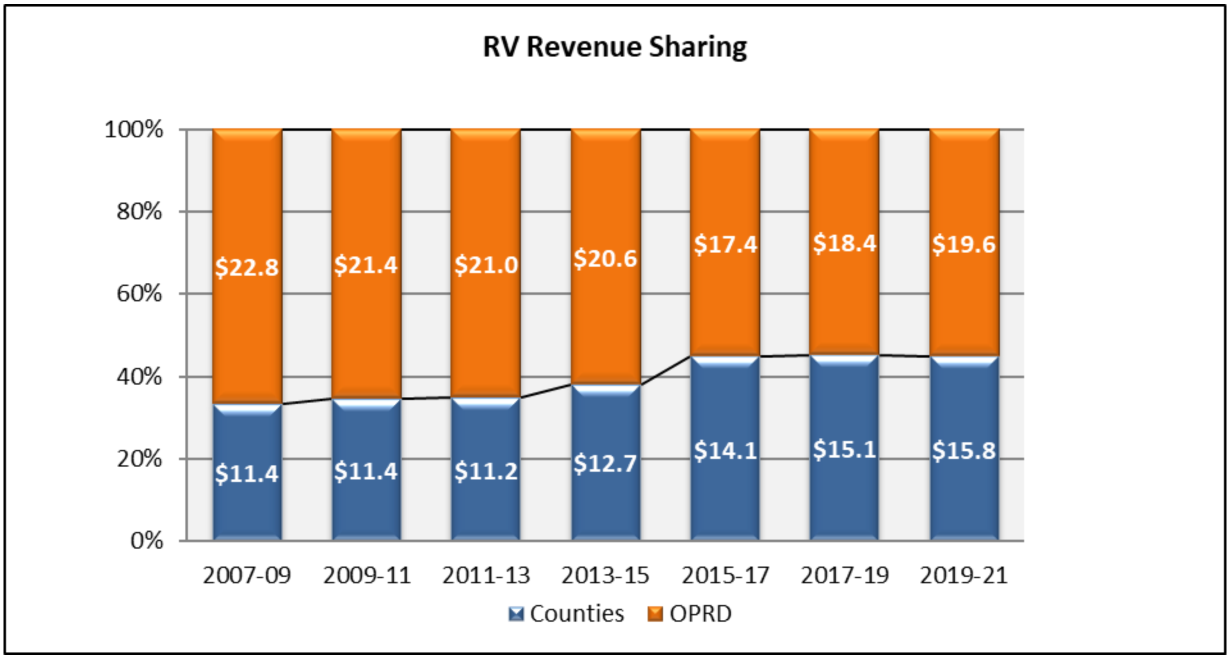
*September 2019 Forecast

The 2019-21 legislatively adopted budget assumes $110.4 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account, as of the September 2019 forecast. Of that amount, $13.2 million is required to be appropriated by the Legislature to local park grant programs. Actual budgeted amounts for local grant funding may vary due to the carry-forward of unexpended funding. The remaining amount, $97.2 million, is projected to be available for the Department's operating programs. The legislatively adopted budget includes these distributions:



Park user fees represent 21.7% of total revenues and 43.1% of Other Funds revenues. User fees are expected to generate $56.3 million in 2019-21.

The OPRD budget anticipates transfers from the Oregon Department of Transportation (ODOT) totaling $50.53 million. Of that amount, $35.39 million is from recreational vehicle (RV) registration fees. These revenues are split between counties and OPRD at a current rate of 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 2019-21, the RV revenue is expected to total $35.39 million, $19.6 million for the state parks system and $15.8 million for transfer to counties, including $1.6 million for county opportunity grants. The current estimate of RV registration fees reflects an increase of approximately $1.9 million from 2017-19.

A portion of the transfer that OPRD receives from ODOT is for the estimated amount of unrefunded fuel tax associated with purchase and use of fuel by valid all-terrain vehicles (ATV) permit holders. The estimated revenues for 2019-21 are $11.3 million. 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 $0.34 per gallon. 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 and for the 2019-21 biennium this is anticipated to be $580,308.

The Oregon Travel Information Council (TIC) currently manages three of the OPRD properties serving as safety rest areas in Oregon along interstate and state highways. The properties that TIC manages are: Van Duzer, Ellmaker, and Peter Skene Ogden. OPRD maintains ownership of these properties, but the responsibility to manage, maintain, and improve the properties as rest areas has been transitioned to TIC. Since OPRD still owns the properties, and these properties can be used by visitors for recreation beyond a rest area function, OPRD still has certain maintenance and operations responsibilities for these properties. In the 2017-19 biennium, OPRD was budgeted to receive $2,554,706 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 to TIC, OPRD has seen a decrease in that funding from ODOT. The 2019-21 budgeted transfer from ODOT is $2,189,748; a reduction of $364,958.

The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $393,967 in the 2019-21 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 $1.24 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 $16.7 million in Federal Funds. 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.

Funding for OPRD is primarily a mix of Lottery Funds and Other Funds revenues, with supplemental funding from Federal Funds. In the 1999-01 biennium, dedicated Lottery Funds from Measure 66 (1998) provided 35% of available revenue and Other Funds provided 63%. Up until the 2009-11 biennium, Lottery Funds increased relative to Other Funds. 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. Available funding from Lottery Funds peaked in the 2017-19 biennium at 46.5% 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. At the beginning of the 2019-21 biennium, available funding from Lottery Funds is 44.2% of the total budget.

Legislatively Adopted Budget

The legislatively adopted budget for the Oregon Parks and Recreation Department totals $264.1 million which includes $116,785,754 Lottery Funds, $130,655,323 Other Funds, $16,685,823 Federal Funds, and 870 positions (602.55 FTE). The budget is a 16.3% increase from the 2017-19 legislatively approved budget. The budget recognizes fee revenues from a flexible fee schedule adopted by the Parks Commission and includes $13 million in Lottery Funds for local park grants. The budget includes $5 million Other Funds expenditure limitation for bond proceeds funding local Main Street program grants. The budget makes significant investments in accessibility improvements, facilities maintenance, and development of existing parks and trail systems. Operational investments include funding for inclusivity programs to address recreation and service needs of underrepresented and non-traditional users, increased costs of contracted services, and initial reservation system replacement planning.

The budget provides one-time-only expenditure limitation of $1.5 million Lottery Funds and $2 million Other Funds to provide for increased accessibility improvements in existing day use and overnight facilities throughout the park system and to enhance overnight camping options along the coast. The funding will be allocated across three projects. The first is $500,000 for expanding ADA enhancements to picnic facilities, campgrounds, trail systems, and viewpoints. The second is $1,000,000 to allow for an accelerated schedule of restroom replacement. The remaining $2,000,000 will allow OPRD to selectively add additional camping along the Oregon coast, including the addition of a small tent walk-in loop at Fort Stevens State Park, and make improvements to older sites along the coast where campgrounds are built to capacity.

One-time-only expenditure limitation of $341,460 Lottery Funds and $358,540 Other Funds is included in the budget to fund internal and external work to broaden OPRD's reach to a more diverse staff and visitor base. The plan involves investment into internal training to ensure staff understand recreation and service needs of under-represented and non-traditional users. It will also include work to recruit a work force that better represents the changing demographics in Oregon. Of the total expenditure limitation provided, $100,000 total funds are to implement an ongoing inclusion competency training for all OPRD staff, and $100,000 total funds are to develop an effective branding strategy for the Department.

The budget provides expenditure limitation of $112,591 Lottery Funds and $118,222 Other Funds and authorizes the establishment of one position (0.88 FTE) as an additional Park Region Manager. This will allow OPRD to divide the existing three regions of the state into four regions, reducing the travel of two positions to balance work load, geographic distance, and responsiveness to stakeholders.

OPRD transitioned to using contracted call center services in December 2016. Of the nine call center positions that had been established at OPRD, three were eliminated and the six remaining were abolished in favor of the creation of three positions; a design specialist, a public affairs specialist, and a research analyst, as part of a permanent finance plan that was approved in the 2017-19 biennium. Since the agency repurposed the funding of the six positions for the three new positions rather than using that funding to pay for the contracted call center services, a funding shortfall was created in the agency's budget. At its September 2018 meeting, the Emergency Board provided a one-time increase in expenditure limitation to address the budgetary shortfall. The legislatively adopted budget makes that correction permanent by increasing combined Other Funds and Lottery Funds expenditure limitation by $1,168,224 is for costs associated with the reservation system and increases of $40,006 for costs associated with merchant fees and $55,591 for costs associated with Department of Administrative Services (DAS) financial systems use.

The budget provides increased expenditure limitation of $1,211,806 Other Funds and $201,717 Lottery Funds for specific budget items where costs are increasing faster than inflation and the cost is generally outside of the Department's control. These include:

- Expenditures from the user-fee supported preventative maintenance fund,
- Extraordinary inflation for Utilities, Fleet, and Fire Protection,
- Expenditure limitation for "enterprise" activities related to vended goods or services at campgrounds, like firewood sales, and
- Additional expenditure limitation for the "lower Deschutes river dedicated account" for the funding of allowable projects from the account.

To allow OPRD to distribute increased funding available from the increase in fuels tax approved during the 2017 legislative session, an additional $3,000,000 Other Funds expenditure limitation is included in the budget. The increased limitation will be used to award grants for operations, maintenance, and law enforcement of ATV riding areas.

A one-time-only increase in Federal Funds expenditure limitation of $118,000 is included in the budget, supported by additional revenue from the U.S. Bureau of Reclamation. Funding will be used for construction projects in the Prineville management unit.

A one-time-only Other Funds limitation increase of $3,000,000 was included in the budget to address fish passage and habitat concerns at Bates State Park. The existing Bates State Park pond dam fish ladder does not meet current fish passage requirements. The project will allow for renovations or rebuilding, if necessary, of the fish ladder to meet current standards including a fish stream bypass. The addition of the stream bypass will also reduce the effects of the higher water temperature caused by the pond.

The Legislature approved inclusion of one-time-only expenditure limitation of $7,000,000 Other Funds to allow for the construction of several projects in commemoration of the State Parks Centennial. The projects currently planned include development of a new overnight camping facility at Fogerty Creek State Park; a new parking area, visitor orientation/education facilities, and projects to mitigate congestion at Silver Falls State Park; and implementation of visitor/traffic management strategies in the Smith Rock master plan, including the development of new entrance areas and a visitor welcome facility at Smith Rock State Park.

A one-time-only expenditure limitation increase of $2,250,000 Other Funds was included in the budget to provide funding for work on closing gaps in the Oregon Coast Trail and for improvements associated with the extension of the Historic Columbia River Highway Trail. Of this amount, $1.25 million will be used to conduct an assessment of existing Coast Trail conditions and facility needs, provide restoration or trail reroutes to achieve maintenance goals, design and construct identified trail side facilities and improve trail signage as needed, and $1 million would be used in conjunction with ODOT funded projects to make improvements at Viento State Park where the Columbia River Highway Trail would intersect and overlay a portion of the existing shop access road. OPRD would work with ODOT on site grading, construction of a new shop access road, and an employee parking area.

The budget includes an increase of $3 million Lottery Funds for park property acquisition. In conjunction with the funding the following budget note was included in the budget report for the agency's budget bill:

> Budget Note
> In addition to any other required materials, the Oregon Parks and Recreation Department shall provide a report to the Joint Committee on Ways and Means during the budget presentation hearings for the 2021-23 biennium detailing purchases of additional park property completed or anticipated to be completed during the 2019-21 biennium. The report must include, at a minimum, the specific location, acres, and price paid for each property, and the initial development and management plan for each property.

Ongoing expenditure limitation of $100,000 total funds ($48,750 Lottery Funds and $51,220 Other Funds) to develop and implement comprehensive archaeological testing projects at state parks is provided in the budget. Each project entails contracting with an archaeological services contractor to research known archaeological resources, soliciting a permit from the State Historic Preservation Office to perform site testing, and the development and implementation of a testing protocol which could include test pits, ground penetrating radar, or other methods as appropriate. This information will be used to identify key archaeological features and sites, delineate site boundaries and provide critical archaeological background information to expedite clearances on needed projects such as repairs to critical park infrastructure like water, electric, and sewer facilities where archeological testing is often a legal requirement.

The budget provides $490,000 in Lottery Funds expenditure limitation to supplement existing funding in four community grant programs. This funding includes: $150,000 Lottery Funds to the Diamond in the Rough historic preservation grant program that is currently only supported by Other Funds from the Cultural Trust and Special Assessment application fees, increased funding for the Preserving Oregon historic and archaeology grant program by $150,000, increased funding for the Heritage grant program by $150,000 for non-building heritage projects, and increased funding for the Museum grant program by $40,000.

Expenditure limitation of $12 million is included in the budget for grants that were awarded, but not fully drawn down in the 2017-19 biennium. These include: $5.18 million Other Funds for the Main Street Grant program; $613,000 Other Funds for the County Opportunity Grant program, and $6.27 million Federal Funds for the Land and Water Conservation Fund and the Recreational Trails program. Additionally, one-time-only expenditure limitation of $633,694 total funds was included in the budget to complete work under a grant awarded to OPRD from the Federal Emergency Management Agency (FEMA) for state park properties damaged in the Willamette Valley and along the Oregon coast due to 2015 winter storms. Not all work was completed during the 2017-19 biennium as anticipated.

The budget provides one-time-only expenditure limitation of $243,900 Lottery Funds and $256,100 Other Funds for reservation system replacement planning. Of this total, expenditure limitation of $283,412 Lottery Funds and $297,588 Other Funds (of which $73,170 Lottery Funds and $76,830 Other Funds is one-time-only) is for costs related to the transition to Office 365, ongoing expenditure limitation of $185,364 Lottery Funds and $194,636 Other Funds is for increased costs of Enterprise Technology Services (ETS) from the Department of Administrative Services, and expenditure limitation of $122,865 Lottery Funds and $129,011 Other Funds is to establish a limited duration position (0.88 FTE) to initiate the process of infrastructure evaluation by mapping locations of underground infrastructure in state parks.

The budget contains ongoing expenditure limitation of $9,607 Lottery Funds and $7,503 Federal Funds ($17,110 total funds) to reclassify two positions. An administrative specialist position will be converted to a natural resource specialist archaeologist position reviewing projects for compliance with applicable state and federal requirements. An information systems specialist position will be upwardly reclassified to better reflect current duties.

The budget provides one-time-only Other Funds expenditure limitation of $400,000 for the Department to conduct an evaluation of necessary repairs at the State Capitol Park. The funding for the evaluation is transferred to OPRD from the Department of Administrative Services for this purpose.

One-time-only $500,000 Other Funds expenditure limitation and the authorization to establish a limited-duration position (1.00 FTE) to work as a project manager on the Salmonberry Trail Project was included in the budget. OPRD has been working with the Department of Forestry and other local partners toward the goal of creating the Salmonberry Trail. The package recognizes $425,000 in new revenues from grants and donated funds raised for the project. The remaining funding for the project is carried-forward from prior biennia.

WATER RESOURCES DEPARTMENT

Analyst: Stayner

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	31,151,280	33,503,512	34,710,206	36,722,794
Lottery Funds	2,511,474	3,953,969	8,493,320	7,566,502
Other Funds	12,105,217	66,864,861	44,268,986	99,151,093
Federal Funds	629,631	1,905,917	876,734	875,519
Total Funds	**$46,397,602**	**$106,228,259**	**$88,349,246**	**$144,315,908**
Positions	166	170	169	177
FTE	163.43	167.59	164.51	171.79

Overview

The Water Resources Department (WRD) issues and protects water rights and implements water policy for the state. 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 – (13 positions, 12.50 FTE) Provides human resource, accounting, payroll, contracting, facilities management, risk management, training services, and budget preparation and execution. The program operates the Water Conservation, Reuse, and Storage Grant Program established by SB 1069 (2008) providing funding for feasibility studies. The program also operates the Water Supply Development Fund established by SB 839 (2013) to provide loans and grants for water resources development projects that evaluate and plan projects to provide access to new water supplies for in-stream and out-of-stream uses.
- Field Services – (61 positions, 58.71 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 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 – (51 positions, 50.28 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, 37.17 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 – (14 positions, 13.13 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 $85.85 million Other Funds for lottery revenue bond proceeds including bond issuance costs. An additional $7.57 million Lottery Funds expenditure limitation is also included for debt service on bonds issued in the 2015-17 and 2017-19 biennia. These amounts heavily skewed the total revenue picture for the Water Resources Department as these amounts are roughly twice the ongoing operating budget of the agency and therefore effectively triple the total available revenue for the agency in the 2019-21 budget.

Exclusive of the additional Other Funds expenditure limitation for bond proceeds and Lottery Funds expenditure limitation for debt service, the Department's operating budget is primarily General Fund, representing 72.15% 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 25.9% of the operating revenue for WRD, not including bond proceeds and debt service. 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 $12.1 million of fee revenue, including $1.45 million in federal service contract revenues for the 2019-21 biennium.

Lottery Funds are used exclusively to pay debt service on lottery revenue bonds. Lottery Funds make up 13% of the agency's operating budget net of bond proceeds.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 1.5% of the agency's operating budget.

<u>Budget Environment</u>
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.

Since there are few new water rights available, the agency has shifted significantly towards identifying, developing, and managing the water. There is not an identified revenue source to accomplish this work and over the past four biennia, General Fund has gone from 48.76% of the operating budget (less bond proceeds and debt service) in 2013-15 to 72.15% of the operating budget in the current biennium. It is likely that this trend will continue unless alternate ongoing funding is identified. There were discussions regarding the implementation of an annual water rights management fee of $100 per water right. With roughly 90,000 water right holders, there is a potential biennial revenue of $18 million.

Listings and potential listings under the Endangered Species Act and water quality issues increase the complexity of water allocation decisions. The habitat of the spotted frog continues to be an issue, particularly in the Deschutes River basin.

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 Klamath basin water rights have now been adjudicated and the agency has begun enforcing those rights. This has engendered a significant amount of legal cost for WRD in the past two biennia and is anticipated to continue in the 2019-21 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for the Water Resources Department totals $144,315,908; a $38,087,649, or 35.9% increase from the legislatively approved budget for the 2017-19 biennium. The budget supports 177 positions, 171.79 FTE. The budget continues support for place-based integrated water resources planning, makes permanent, a position participating in shared payroll services that serves six agencies, and provides funding for a second basin groundwater study team.

The majority of the budget increase is due to the provision of Other Funds expenditure authority for lottery revenue bond proceeds. Although $22.9 million of a total of $53.6 million in Other Funds expenditure authority that was approved for bond-funded projects in the 2017-19 biennium was scheduled to be phased-out of the 2019-21 biennium budget, the adopted budget carried-forward $42 million in expenditure authority from the 2017-19 budget to the 2019-21 biennium and added another $43.8 million for projects funded from lottery revenue bonds in the current biennium. Other Funds expenditure authority for bond funded projects total $85.85 million, or 59.5%, of the 2019-21 biennial budget for the Department. Lottery Funds debt service expenditures have increased at a compound annual growth rate of 53.7% since fiscal year 2013. Lottery Funds supported debt service totals $7.6 million, or 13% of the agency's budget excluding bond proceeds for the 2019-21 biennium.

Two vehicles are used to distribute the new bond proceeds in the agency's budget. An increase of $25.5 million in Other Funds expenditure limitation was established for the purpose of making grants, loans, and paying the cost of bond issuance from lottery bond proceeds deposited into the Water Supply Development Fund, commonly referred to as the SB 839 fund. Of this amount, $15 million is for Water Supply Development grants and loans to evaluate, plan, and develop in-stream and out-of-stream water development projects that: repair or replace infrastructure to increase the efficiency of water use; provide new or expanded water storage; improve or alter operations of existing water storage facilities in connection with newly developed water; create new, expanded, improved, or altered water distribution, conveyance, or delivery systems in connection with newly developed water; allocate federally stored water; promote water reuse or conservation; provide streamflow protection or restoration; provide for water management or measurement in connection with newly developed water; and, determine seasonally varying flows in connection with newly developed water. Of the amount, $521,689 is for the payment of bond issuance costs. The remaining $10 million expenditure limitation is for bond proceeds allocated to the fund for the Deschutes Basin Board of Control Piping Project. The funding will be combined with additional state, local, and federal funds to allow the Board of Control to pipe currently open canals with a total project cost of $99.38 million.

The second increase of $18.3 million in Other Funds expenditure limitation was for making grants, loans, and paying the cost of bond issuance from lottery bond proceeds deposited into the Water Supply Fund. Of the total increase, $327,563 is for the estimated cost of bond issuance, $14 million is for a grant to the Wallowa Lake Irrigation District for the rehabilitation of the Wallowa Lake Dam, and the remaining $4 million is for a grant to the City of Newport for the planning, environmental permitting, and design costs of replacing the Big Creek Dams.

In addition to the new bond funding, the budget includes another $42 million of Other Funds expenditure limitation for bond proceeds from bonds that were issued in the 2015-17 and 2017-19 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	2019-21 Remaining Unspent Funds
Water Supply Development (SB 839) Grants and Loans	2015-17	$6,250,000	$2,650,000
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	$1,000,000
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
Water Supply Development (SB 839) Grants and Loans	2017-19	$15,000,000	$15,000,000
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)	2017-19	$1,500,000	$1,500,000
For water supply and storage projects at the City of Carlton	2017-19	$4,500,000	$4,500,000
For water supply projects at the Santiam Water Control District	2017-19	$1,200,000	$1,200,000
For water supply and storage projects at the City of Carlton (2018 Session adjustments)	2017-19	$5,150,000	$5,150,000
Total		$46,600,000	$42,000,000

The budget provides a General Fund appropriation of $788,561 and authorizes the establishment of a limited-duration Natural Resources Specialist 4, Planning Coordinator position (1.00 FTE) to provide financial and technical assistance to help support the four planning groups participating in a pilot, place-based integrated water resources planning project.   The funding and position authority are provided in conjunction with the four-year extension of the statutory sunset of the program contained in HB 2084. The participating basins are: Upper Grand Ronde, Lower John Day, Malheur Land, and the Mid-Coast. The funding will be used by the Water Resources Department and the participating groups to complete the planning phase and transition to plan implementation.

A General Fund appropriation of $1,659,740 and the authorization to establish six permanent positions (5.28 FTE) for the evaluation of groundwater basin studies in cooperation with the U.S. Geological Society and the Oregon

Department of Geology and Mineral Industries is included in the adopted budget for the agency. Each basin study takes between five and six years to complete. This package will double the agency's capacity to conduct the studies. In addition to the funding in the package, the agency will be using existing Other Funds expenditure limitation of $300,000 for cost-share expenses related to the studies from exempt well use fee funds.

The budget includes an Other Funds expenditure limitation increase of $146,808 and authorizes the establishment of permanent Accounting Tech 3 position (1.00 FTE) to support the shared payroll services program.   During the initial pilot phase of the of project, the position was limited duration. The shared payroll team is currently supporting 550 employees in six agencies including the Department of State Lands, the Department of Land Conservation and Development, the Land Use Board of Appeals, Housing and Community Services Department, and the Oregon Watershed Enhancement Board.

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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	190,000	--	--
Lottery Funds	62,490,494	79,589,460	82,674,272	90,535,226
Other Funds	2,709,180	3,009,486	1,670,646	3,070,646
Federal Funds	23,324,998	41,759,143	28,044,683	45,304,270
Total Funds	**$89,524,672**	**$124,548,089**	**$112,389,601**	**$138,910,142**
Positions	35	33	31	34
FTE	34.25	33.00	31.00	34.00

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 and state agencies are prohibited from directly receiving any of the 65% dedicated to grants. Previously, state agency programs could be funded under either the capital or operations funding split as long as it was a qualifying expenditure.

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 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 2019-21 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. No revenues from offering sports betting were assumed in the May 2019 Lottery Forecast, which means that if such betting is available in the Fall of 2019 as currently planned, some additional resources may be available above the initial 2019-21 forecast.

Federal Funds are derived primarily from the 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 about $40 million Federal Funds from PCSRF would be available for expenditure in 2019-21. This amount includes one year of federal funding and $15 million of carryforward funds. OWEB is hopeful it will receive a second similar grant amount in the second half of the 2019-21 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 also 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 monies from the Department of Forestry for a grant program administered by OWEB.

Budget Environment

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. This includes additional funding for the Department of Agriculture to combat invasive pest outbreaks in Washington and Polk counties.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2019-21 legislatively adopted budget for Operations included a total of $8.3 million in Operations Lottery Funds, $17,926 Other Funds, $2.5 million Federal Funds, and 35 positions (an increase from 34 positions in 2017-19) to support administration of the grant program. A Conservation Outcome Coordinator and a Conservation Outcome Specialist were continued from 2017-19. The Coordinator position was made permanent and supported with Federal Funds from the PCSRF grant and the Specialist position was continued as limited-duration and supported with Measure 76 operating Lottery Funds. In addition, a new limited-duration Natural Resources 4 position was added to coordinate the Focused Investment Partnership program paid for with Measure 76 operating Lottery Funds.

The legislatively adopted budget for the Grant program established an $82.2 million Lottery Funds grant fund for 2019-21, which is $9.6 million (or 13%) more than the legislatively approved grant fund for the 2017-19 biennium. Higher than forecasted 2017-19 revenues being carried forward into the 2019-21 biennium accounts for $5.9 million of the increase. The Grant program budget also includes $3 million Other Funds and $42.8 million Federal Funds. The Other Funds expenditure limitation includes $900,000 carry-over to accommodate grants awarded in 2017-19 that will continue into 2019-21. Likewise, the Federal Funds total includes $15 million of carry-forward expenditure limitation for projects approved last biennium that will continue into 2019-21.

The following table shows the legislatively adopted budget's 2019-21 expenditure limitation of all Measure 76 Lottery Funds.

2019-21 Measure 76 Lottery Fund Expenditures

	M-76 LF 35% Operations	**M-76 LF 65% Grants**
Department of Agriculture	$10,568,358	
State Police / Fish and Wildlife Enforcement	$10,004,076	
Department of Fish and Wildlife	$7,621,405	
Department of Environmental Quality	$5,300,822	
Oregon Watershed Enhancement Board	$8,304,034	$82,231,192

TRANSPORTATION

PROGRAM AREA

DEPARTMENT OF AVIATION

Analyst: Jolivette

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	7,471,010	13,745,866	12,921,194	20,035,792
Federal Funds	7,277,222	9,318,243	3,933,182	11,312,356
Total Funds	**$14,748,232**	**$23,064,109**	**$16,854,376**	**$31,348,148**
Positions	15	15	15	16
FTE	13.99	14.25	14.49	15.49

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 standards

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 (FAA) via the Airport Improvement Program for state system-wide planning, safety inspections, and planning and construction for state-owned airports. Total estimated revenue for the 2019-21 biennium is $26.3 million, with 57% coming from taxes and fees and 43% from federal funds. This 13.7% increase compared to 2017-19 is the result of having more construction projects in the pipeline.

Recent revenue-related legislation:

- SB 27 (2017) abolished pilot registration and related fees in Oregon. The Search and Rescue program administered by the Office of Emergency Management, which had been funded in part by pilot registration fees, is now supported by aircraft registration fees.
- HB 2075 (2015) increased aircraft fuel taxes by 2 cents per gallon until January 1, 2022, and required the new revenue be used to support grants for aviation projects (50%), commercial air service links to rural communities (25%), and infrastructure projects at state airports (25%). These grants are known as Aviation System Action Program (ASAP) grants.
- SB 269 (2015) increased license and registration fees by varying amounts.

Budget Environment

Due to fiscal constraints, the agency has remained lean even as new workload demands have been placed on staff. In recent years, the agency's core workload has increased with implementation of the Aviation System Action Program created by HB 2075 (2015), namely in the areas of procurement and contract and project management. Another source of new demands on the agency has been the emergence of the unmanned aerial systems (UAS/drones) industry. Aviation is the lead agency responsible for tracking related federal developments and working with stakeholders to formulate a state regulatory framework. Currently, 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.

Federal funds for aviation programs are secure and predictable through fiscal year 2023. In 2018, Congress reauthorized funding for aviation programs for five years. Although the Airport Improvement Program was essentially flat-funded through the end of 2023, Congress separately passed supplemental appropriations totaling $1.5 billion to be used for discretionary grants. In comparison, the future of state funds for aviation programs is considerably less certain with the looming expiration (in January 2022) of the 2015 tax increase on jet fuel and avgas. If the tax expires, less funding will be available for airport construction projects and the agency may be required to reduce its workforce. Legislation introduced in the 2019 session to repeal the sunset of the tax did not make it out of committee. The agency has indicated it intends to sponsor similar legislation in an upcoming legislative session.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $31.3 million total funds is an increase of $8.3 million (or 35.9%) compared to the 2017-19 legislatively approved budget. The increase is driven by investments in state airport infrastructure and an effort to increase the number of ASAP grant awards in the current biennium. The budget provides $9.3 million Other Funds for ASAP grants, of which $3.9 million was approved on a one-time basis.

The agency budget for 2019-21 also provides $7.95 million total funds for airport capital construction projects. Except for the Prospect State Airport project, which will be 100% state funded by aviation system fuel tax revenues, the capital construction projects listed below are funded using 90% Federal Funds, and 10% state funds.

- Prospect State Airport Runway Reconstruction: $2,160,000 Other Funds to conduct renovations at the Prospect State Airport. This project includes reconstruction of the runway, including design engineering and construction of a new subbase.
- Aurora State Airport Run-up Area Construction: $1,845,000 Federal Funds and $205,000 Other Funds to conduct rehabilitation at the Aurora State Airport. This project includes design engineering and construction of a run-up area for runway 17 to improve safety and reduce congestion.
- Condon State Airport Runway Rehabilitation: $2,340,000 Federal Funds and $260,000 Other Funds to conduct rehabilitation at the Condon State Airport. This project includes rehabilitation of the runway, which is needed to meet federal standards for safe operating conditions.
- Siletz Bay State Airport Taxiway Rehabilitation: $1,026,000 Federal Funds and $114,000 Other Funds to conduct rehabilitation at the Siletz State Airport. This project includes rehabilitation of the taxiway, which is needed to meet federal standards for safe operating conditions.

Other notable budget adjustments include:

- $90,000 to address deferred maintenance at the Salem Office Building, Aviation Headquarters. Specifically, the adjustment is intended to cover the cost of roof repair and a plan for eventual replacement of the building.
- $1 million for a study to evaluate if "disadvantaged businesses" have equal access to Federal Aviation Administration (FAA) contracting opportunities. The study is required by FAA.
- $1.4 million for capital improvement projects at state-owned airports. The projects are part of a five-year capital improvement program approved by the agency and the FAA.

DEPARTMENT OF TRANSPORTATION

Analyst: Jolivette

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	22,052,311	23,456,104	45,433,147	25,306,026
Lottery Funds	107,484,130	113,596,792	118,775,740	115,592,980
Other Funds	3,052,647,716	3,822,653,506	4,150,258,956	4,226,441,397
Other Funds (NL)	527,193,523	173,412,455	18,000,000	18,000,000
Federal Funds	86,113,542	105,756,768	112,026,315	113,670,758
Federal Funds (NL)	20,145,859	21,575,775	21,243,619	21,243,619
Total Funds	**$3,815,637,081**	**$4,260,451,400**	**$4,465,737,777**	**$4,520,254,780**
Positions	4,506	4,715	4,688	4,867
FTE	4,393.92	4,502.97	4,590.79	4,709.25

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 (OTC) is appointed by the Governor and the Department's director is appointed by the OTC 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 2019-21, total revenue from all sources is estimated to be $6.1 billion. Of this amount, $1.2 billion is projected to transfer out to other state agencies and local governments, leaving $5 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 $1.3 billion in 2019-21 – are budgeted as Other Funds.

Lottery Funds are used to make debt service payments on rail and transportation infrastructure projects funded with the proceeds of 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 Nonlimited and Federal Funds Nonlimited – 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 paying debt service on the now completed state radio project and highway safety projects.

HB 2017 (2017) increased taxes and fees dedicated to the State Highway Fund and established new taxes to support multimodal transportation. Key revenue features of HB 2017 included:

- Increased the motor fuel tax from 30 cents per gallon to 34 cents per gallon effective January 1, 2018, with 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.
- Created 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.
- Established 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 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.
- Imposed 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.
- Imposed 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 and Statewide Transportation Improvement Funds.

<u>Budget Environment</u>
The fiscal outlook for the agency is mixed. There is some uncertainty concerning future Federal Funds for transportation. The funds authorized in the Fixing America's Surface Transportation (FAST) Act end in 2020, and current federal taxes on motor fuels are set to expire in 2022, so there are some significant legislative milestones ahead that will determine the flow of Federal Funds into Oregon in the future. The Congressional Budget Office projects a continuing imbalance between federal Highway Trust Fund revenues and outlays through FY 2028 which will require Congress to either transfer general revenue to the Highway Trust Fund as it has since FY 2009, raise the federal tax rate on motor fuels, or limit highway spending to the amount of revenue collected from existing motor fuel taxes. Uncertainty surrounding Federal Funds may pose a challenge in planning future transportation projects.

As for state funds, HB 2017 (2017) significantly improved the budget environment by providing multi-year tax and fee increases, as well as making some important policy changes. For example, by indexing fees to vehicle fuel efficiency, the measure begins to address the erosion in revenue brought about by increased vehicle fuel efficiency. It should be noted that HB 2017 required ODOT to report satisfactory progress in implementing the law before the future gas tax increases can take effect. The agency has indicated it is on track to meet those requirements for the January 2020 motor fuels tax rate increase. HB 2017 also created dedicated funding sources for programs that are not eligible for support from the State Highway Fund, such as Connect Oregon and public transit. The state's long-term ability to maintain its transportation infrastructure will require further movement toward a sustainable user fee structure.

The agency is currently experiencing a period of growth and expansion as it has been tasked with managing several major initiatives, including the delivery of HB 2017 projects, the issuance of REAL ID cards, the System Transformation Project (STP), and now HB 2015 (2019) which requires the department to issue driver licenses, instruction permits, and identification cards to applicants without requiring proof of lawful status in the United States beginning January 1, 2021. ODOT's work force has increased to meet these new demands. Since 2015-17, the agency workforce has grown by 8%. A total of 285 project delivery positions have now been authorized for implementation of HB 2017. The 2019-21 budget adds 120 positions (60.21 FTE) for DMV field offices to issue REAL ID cards to qualified individuals beginning July 2020 and to implement HB 2015 beginning January 2021.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for the Department of Transportation totals $4.5 billion, which is $259.8 million (or 6.1 %) more than the 2017-19 legislatively approved total funds budget. This comparison, however, is misleading because of an adjustment in Nonlimited funds for 2017-19 associated with the refunding of previously issued bonds. Excluding Nonlimited funds, ODOT's 2019-21 legislatively adopted budget is $415.2 million (or 10.1%) higher than the 2017-19 legislatively approved budget. The budget supports 4,867 positions (4,709.25 FTE), an increase of 206.28 FTE.

Major features include:
- $250 million Other Funds increase for HB 2017 highway projects, operations, and maintenance.
- $161.2 million Other Funds increase for Public Transit to increase bus frequency, expand bus routes, and reduce bus fares as required by HB 2017.
- $11.9 million Other Funds for the state radio system, including $2.4 million for maintenance and service agreements and $9.5 million for system hardware replacement.
- $30 million Other Funds for continued modernization of DMV computer systems.
- $10.5 million Other Funds and 120 positions in DMV field offices (61.05 FTE) to issue REAL ID cards and driver licenses and implement HB 2015 (2019) related to driver licenses and ID cards for undocumented Oregonians.
- $12 million Other Funds for land purchase and design for a new South Coast Maintenance Station located in the Coos Bay Area.
- $8 million Other Funds for land purchase and design for a new Central Coast Maintenance Station located in the Lincoln County area.

Details of expenditures are in the following Division analyses.

Highway Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,986,695,729	2,527,277,176	2,687,901,358	2,714,796,381
Total Funds	**$1,986,695,729**	**$2,527,277,176**	**$2,687,901,358**	**$2,714,796,381**
Positions	2,535	2,691	2,683	2,735
FTE	2,463.54	2,539.19	2,616.20	2,667.70

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 involving local and regional governments, transportation agencies, and the public. The STIP is updated every two years through a public hearing process. Other highway projects are identified through legislative actions. The most recent transportation package to pass the Legislature – HB 2017 (2017) – identified specific highway fund-eligible projects totaling $647 million and authorized an initial $480 million in highway user revenue bonds to fund projects.

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, almost 800 Project Delivery staff are deployed in the five Highway regions and in the central Statewide Project Delivery Branch. 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 – 1,372 positions and 1,317.39 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 by this Division.
- Preservation – 139 positions and 139.00 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% or better. While conditions are currently above target, they are forecast to drop within a few years concurrent with expected declining funding levels.
- Bridge – 205 positions and 205.00 FTE. Preserves more than 2,700 bridges, tunnels, and large culverts on the state highway system. Bridge projects rebuild or extend the life of an existing bridge as identified through the Bridge Management System. Routine bridge inspections are performed every two years. The program goal is to protect public safety and preserve infrastructure by keeping bridges in the best condition possible. The Bridge program is also committed to maintaining a small number of high value, historic Oregon coastal bridges that were designed by Conde B. McCullough. The bridges are 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 – 184 positions and 182.79 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 – 219 positions and 218.50 FTE. Designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing, climbing, turning, accelerating, and decelerating; building new road alignments or facilities, including bypasses; realigning or widening existing roads; and widening bridges to add travel lanes. Modernization projects improve safety, relieve traffic congestion, and allow more efficient movement of people and goods across Oregon.
- Special Programs – 561 positions and 550.02 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.

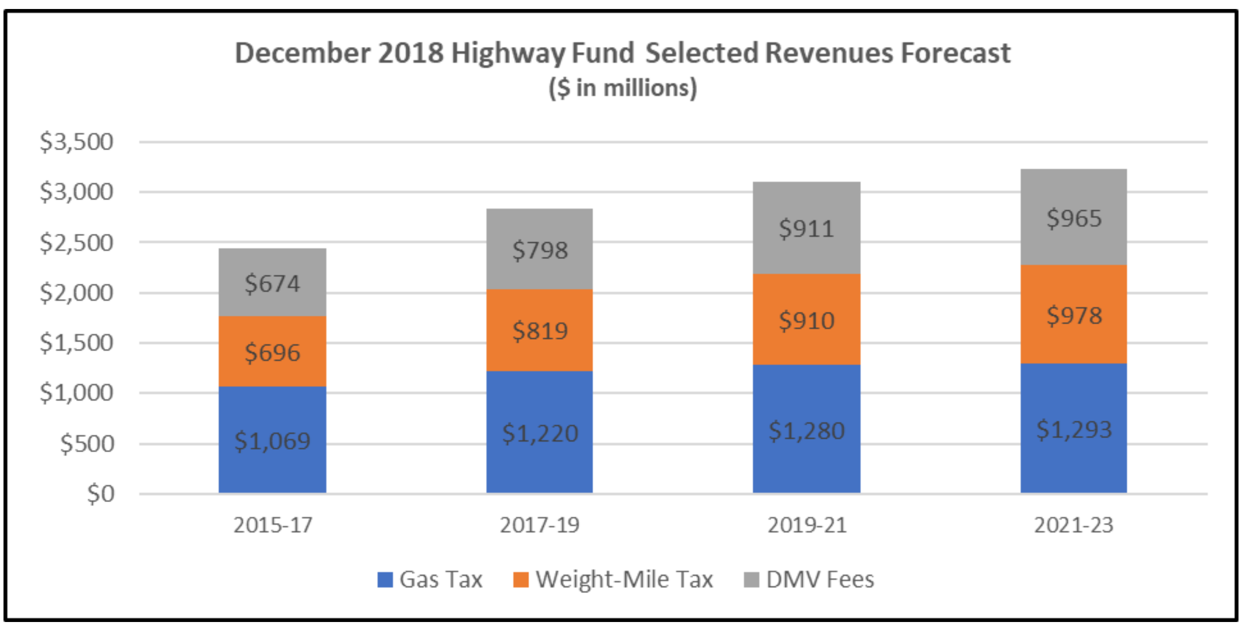
The following table provides total funds expenditure detail for Highway Division programs.

Highway Division Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Maintenance	488,825,399	570,417,935	567,207,836	566,677,478
Preservation	296,200,035	274,001,494	403,955,652	405,061,206
Bridge	149,597,412	325,853,130	552,126,635	557,030,174
Highway Operations	176,518,140	263,369,158	387,456,104	387,329,983
Modernization	397,154,859	344,154,839	166,105,480	167,404,546
Special Programs	264,637,701	367,926,888	403,518,038	422,819,406
Local Government	213,762,183	381,553,732	207,531,613	208,473,588
Total Highway Division	**$1,986,695,729**	**$2,527,277,176**	**$2,687,901,358**	**$2,714,796,381**

Revenue Sources and Relationships

Highway programs are supported by state, federal, and local funds. Most 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 2019-21 legislatively approved budget includes $480 million in highway user revenue bond proceeds to pay for identified projects. The following display shows gross Highway Fund revenue from the major state revenue sources. These numbers do not include revenue from motor fuel tax rate increases scheduled to take effect in January of 2020 and 2022.



December 2018 ODOT revenue forecast

Budget Environment

The highway infrastructure, including pavements, bridges, and traffic control systems, continues to age and require 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 2* details how Oregon is falling behind on the fundamentals of preserving and maintaining highways and bridges. The current forecast for the state highway system indicates there will not be enough funds 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 on 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 several separate programs into a single funding stream to fund projects across modes. This new approach makes investment decisions based on the system, 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, as well as from federal agencies and legislation.

The Highway Division has successfully delivered major construction programs – the Oregon Transportation Investment Act (OTIA) I, II, and III and the Jobs and Transportation Act (JTA). 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 specified projects. These one-time revenue authorizations have allowed the Highway Division to replace and repair several 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.

Since the start of the 2017-19 biennium, the Division's primary focus has been implementation of HB 2017 (2017), which made a significant investment in transportation. Among other things, the measure directs the agency to undertake over $647 million in named transportation projects across the state. To date, the Division has received a total of 217 project delivery positions to address the related workload. Even with these additional positions, the agency anticipates increasing the amount of outsourcing for project delivery from the current 50% to approximately 70%. It should be noted that, due to the economic downturn in 2008-09, the Division was required to make a series of reductions over several biennia that resulted in the loss of about 200 positions.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget of $2.71 billion Other Funds is $187.5 million, or 7.4%, more than the 2017-19 legislatively approved budget level. The increase largely reflects the phase-in of HB 2017 projects and positions, and the anticipated timing of payments for construction projects in the STIP. The budget adds 52 positions (51.50 FTE) for HB 2017 project delivery, including 10 positions (9.50 FTE) to establish a tolling program. It also adds $2.4 million for service agreements and other operating costs to maintain the state radio system.

Driver and Motor Vehicles Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	--
Other Funds	182,952,252	232,445,226	211,064,630	247,310,572
Federal Funds	908,340	2,023,588	2,103,458	2,103,458
Total Funds	**$183,860,592**	**$234,468,814**	**$213,168,088**	**$249,414,030**
Positions	876	870	865	989
FTE	847.41	850.00	846.50	910.46

Program Description

Driver and Motor Vehicles (DMV) licenses and registers nearly 2.5 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 1.5 million phone inquiries each year through three call centers, two of which are staffed by Department of Corrections adults in custody. Law enforcement agencies access about 141,000 records each day, and businesses and individuals make over 2.3 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported by 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. These revenues, estimated to be $910.6 million in 2019-21, flow into the State Highway Fund, the Transportation Operating Fund, and into funds administered by other programs, such as Public Transit and Passenger Rail.

Revenues in excess of DMV collection and operating costs are subject to city, county, and state distribution. Approximately 40% of the revenues collected are projected to be transferred to the State Highway Fund, cities, and counties. In addition, just over 30% or $298.8 million of the revenues collected are projected to be transferred to other divisions within ODOT and other state agencies.

Budget Environment

The DMV program is population and economy driven. With strong economic and population growth in Oregon between 2014 and 2017, DMV experienced a steady increase in demand for its services. Recent data show population growth has slowed. Consistent with this, ODOT's December 2018 state revenue forecast predicts DMV is headed toward several years of slower growth.

DMV is currently managing several critical projects. To meet demands for more rigorous standards for the issuance of driver licenses or identification card, and the public demand for timely and online services, in 2015, ODOT launched the DMV Service Transformation Project (STP) to re-design business processes and modernize the information systems used by DMV. The 2019-21 legislatively approved budget provides expenditure limitation of $30 million for years five and six of the 10-year modernization project. By all accounts, STP Phase 2 (rollout of the new Driver system) – is currently on track for successful completion in 2020. ODOT estimates that by the end of the biennium it will have spent $77 million of the estimated total $90 million project cost.

At the same time that DMV is undergoing a transition to modern information systems, the program has been tasked with implementation of recent policy changes. The DMV, for example, has a significant role in the implementation of HB 2017 changes to vehicle registration and title fees. The measure increased these fees in stages – in 2018, 2020, and 2022, and requires the agency to create and implement variable fee structures for both passenger registration and light titles based on the EPA fuel efficiency rating of the vehicles beginning in January 2020.

Another workload and budget driver for this program has been the federal REAL ID Act. Until recently, state law prohibited the use of non-federal funds to implement the federal mandate. In 2017, however, the Legislature repealed that law and directed the agency to achieve full compliance with the federal law and begin issuing REAL ID cards by July 2020. The confluence of these changes represents a considerable workload for DMV.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $249.4 million is $14.9 million, or 6.4%, higher than the 2017-19 legislatively approved budget and includes 989 positions (910.46 FTE). The Legislature approved $30 million Other Funds to continue the DMV Service Transformation Project (STP), a ten-year project to modernize DMV IT systems. In addition, $3.65 million was provided for maintenance and support costs associated with components of the STP that have already been implemented. The budget provides 49 new positions (33.87 FTE) for DMV field offices to begin issuing REAL ID driver licenses and identification cards beginning July 2020. The budget also provides 71 new positions (26.34 FTE) to implement HB 2015 (2019), which requires the department to issue driver licenses, temporary permits, and identification cards to applicants without requiring proof of legal presence in the United States.

Motor Carrier Transportation Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	59,511,907	65,935,251	70,619,707	70,414,081
Federal Funds	--	--	--	--
Total Funds	**$59,511,907**	**65,935,251**	**$70,619,707**	**$70,414,081**
Positions	283	294	294	294
FTE	283.00	288.00	294.00	294.00

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 2019-21 legislatively adopted budget of $70.4 million total funds is $4.5 million, or 6.8%, more than the 2017-19 legislatively approved budget level and includes 294 positions (294.00 FTE). The increase mostly reflects the full biennial costs of positions added in 2017-19 for implementation of HB 2017.

Transportation Development Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	128,557,717	174,619,589	182,609,662	183,488,798
Federal Funds	155,374	208,630	202,339	201,769
Total Funds	**$128,713,091**	**$174,828,219**	**$182,812,001**	**$183,690,567**
Positions	230	241	238	241
FTE	221.01	227.43	229.27	232.27

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 $502 million for the Connect Oregon program (I – VII). Together, the seven current phases of the Connect Oregon 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 Connect Oregon grants and loans.

<u>Revenue Sources and Relationships</u>
Planning activities are funded from federal planning grants that 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 awarded $457 million in Lottery bond proceeds in the past seven biennia.

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. Revenue from the bicycle tax will be deposited into the Connect Oregon Fund for bicycle and pedestrian projects.

HB 2017 directed the Oregon Transportation Commission to distribute available 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, there was no competitive grant cycle for new awards in the 2017-19 biennium. The agency has indicated there probably will not be new awards in the 2019-21 biennium.

<u>Budget Environment</u>
Passage of HB 2001 (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.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget of $183.7 million is $8.9 million, or 5.1%, more than the 2017-19 legislatively approved budget and includes 241 positions (232.27 FTE). The budget increase mostly reflects the costs associated with new positions related to HB 2017. The program received 11 positions in the 2017-19 biennia and 3 new positions in the 2019-21 legislatively adopted budget. The 2019-21 legislatively adopted budget does not authorize new lottery bonds for the Connect Oregon program; however, it does provide expenditure limitation of $75 million for awards already made.

Public Transit Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	9,399,877	9,747,800	10,118,217	--
Other Funds	27,720,704	85,442,732	274,150,815	246,614,961
Federal Funds	58,886,602	67,550,353	72,037,307	73,747,091
Total Funds	**$96,007,183**	**$162,740,885**	**$356,306,339**	**$320,362,052**
Positions	18	26	25	25
FTE	18.00	21.87	25.00	25.00

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. These providers include transit districts, tribal governments, and city and county services, in coordination with private not-for-profit and for-profit services. Some options for public transportation exist 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 20 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 assist 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 provide information for system analysis and program improvements.

Revenue Sources and Relationships

The sources of funding for Public Transit are Other Funds and Federal Funds. HB 2017 established 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. Additional Other Funds resources are derived from transfers from the ODOT Transportation Operating Fund, Cigarette Tax, Oregon ID card revenue, and interest income. In light of the significant infusion of Other Fund monies from the new payroll tax, the 2019-21 legislatively adopted budget eliminates the General Fund appropriation that had been provided in the past to protect the program against losses in its other fund sources.

Budget Environment

Challenges 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 provided 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 2019-21 legislatively adopted budget of $320.4 million is $157.6 million, or 96.8%, more than the 2017-19 legislatively approved budget and includes 25 positions (25.00 FTE). This increase is primarily 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. Along with the budget for public transit, the Legislature adopted the following budget note:

> The Oregon Department of Transportation is directed to merge the Special Transportation Fund (STF) and the Statewide Transportation Improvement Fund (STIF) into one public transit program. The legislative intent is for the Department to accomplish this with the least possible disruption to the formula allocations and services provided by STF agencies. The Department shall not require STF agencies to submit new or revised plans for formula distributions in the 2019-21 biennium. The Department is directed to report during the 2020 legislative session on the status of the program consolidation, and the administrative costs, including the number of full-time equivalent positions required to administer the consolidated program.

Rail Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,408,710	9,610,058	10,000,000	--
Other Funds	28,830,297	44,816,163	46,748,837	61,818,051
Federal Funds	11,783,260	16,293,328	17,177,757	17,122,916
Total Funds	**$51,022,267**	**$70,719,549**	**$73,926,594**	**$78,940,967**
Positions	33	33	33	33
FTE	33.00	33.00	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 14.3 annually since 2009. 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 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 ($17.1 million) and state ($61.8 million) revenue. For the 2019-21 biennium budget, rather than using General Fund monies, the Legislature increased the level of funds coming from the Transportation Operating Fund by $10 million for support of Amtrak *Cascades* passenger rail service.

Federal revenues include:

- Federal Railroad Administration (FRA) and Federal Transit Administration (FTA) – $17.1 million. Includes both freight and High Speed Rail Corridor projects as made available by Congress. These project-specific funds are used for engineering, design, construction, equipment purchases, and contracts.
- Federal Highway-Railroad Grade Crossing Hazard Elimination Funds – $11.7 million. Budgeted as Other Funds and used for crossing safety projects.

State revenues at the current service level include:

- Custom License Plate Fees – $6.5 million. This is used for passenger rail. It partially funds two daily round trips between Eugene and Portland.
- Transportation Operating Fund (TOF) Non-Highway Fuels Tax – $18.8 million. Helps fund two round trips between Eugene and Portland.

- Rail Gross Revenue Fee – $5.8 million. Paid by Oregon railroads based on their previous year's gross revenue. Funds can only be spent on rail safety, crossing safety, and administrative expenses.
- Grade Crossing Protections Account (GCPA) – $1.1 million. Generated from driver license and vehicle registration fees. Used for crossing safety regulation and improvement projects at public railroad crossings.

Budget Environment

The lack of stable, adequate funding for both passenger and freight rail keeps their 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, and strategic reductions in program expenses makes up the difference for the 2019-21 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 2019-21 legislatively adopted budget of $78.9 million is $8.2 million, or 11.6%, more than the 2017-19 legislatively approved budget and includes 33 positions (33.00 FTE). The budget provides full funding for Amtrak *Cascades* passenger rail service, as well as $5.1 million to be used for rail line repairs and a bridge replacement project at the Port of Coos Bay.

Transportation Safety Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	113,698,657	18,850,201	19,189,241	19,175,340
Federal Funds	14,356,441	19,392,534	20,205,087	20,195,157
Total Funds	**$28,055,098**	**$38,242,735**	**$39,394,328**	**$39,370,497**
Positions	27	30	27	27
FTE	27.00	30.00	27.00	27.00

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 47% 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 53% are 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. After decades of steady decline, fatalities on Oregon roads began to increase in 2014. This was the start of a trend that continued in 2015 and 2016. The increase in fatalities is part of a national trend of higher fatalities; however, in 2017, the last year for which data is available, Oregon's rate decreased from 2016 and is at 1.19 fatalities per 100 million vehicle miles traveled which is slightly higher than the national fatality rate of 1.16. Until recently, Oregon's fatality rates have been consistently below the national average since 1999. The rebounding economy, as well as lower gas prices, helped put more vehicles on the road. Studies show a direct correlation between increased vehicle miles traveled and increased highway fatalities.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $39.4 million is $1.1 million, or 2.9%, more than the 2017-19 legislatively approved budget and includes 27 positions (27.00 FTE). The increase reflects an inflation adjustment to services and supplies, capital outlay, and special payments expenditures.

Central Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	200,921,292	241,861,137	265,682,801	261,022,404
Federal Funds	25,000	288,335	300,367	300,367
Total Funds	**$200,946,292**	**$242,149,472**	**$265,983,168**	**$261,322,771**
Positions	504	531	523	523
FTE	500.96	513.48	519.82	519.82

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 (82.5 FTE) includes the Director's Office (composed of the Director, 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 (72.00 FTE) provides the Department with financial services including accounting, collections, payroll, fuels tax revenue, debt, and financial analysis.
- Human Resources (51.82 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 work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.

- Facilities Maintenance (17.00 FTE) operates and maintains ODOT-owned buildings primarily in the Salem and Portland areas. Crews conduct scheduled inspections and services, repair and replace building system components, and respond to routine and emergency maintenance needs.
- Information Systems (217.00 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 (11.00 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 (10.00 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 (58.50 FTE) is the central procurement authority for ODOT and manages all procurement and contracting matters for ODOT and 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 the 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 state legislative priorities, rapidly changing information technology, and efficient delivery of programs.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $261.3 million is $19.2 million, or7.9 %, more than the 2017-19 legislatively approved budget and includes 523 positions (519.82 FTE). The increase is a combination of inflation and the roll-up cost of positions added in the prior biennium.

Nonlimited Loan Fund

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	20,631,172	18,158,214	18,000,000	18,000,000
Total Funds	**$20,631,172**	**$18,158,214**	**$18,000,000**	**$18,000,000**

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 2019-21 legislatively adopted budget is $18 million to reflect anticipated loan disbursements for the biennium.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,243,724	4,098,246	25,314,930	25,306,026
Lottery Funds	107,484,130	113,596,792	118,775,740	115,592,980
Other Funds	371,353,676	416,134,682	384,438,233	384,447,137
Other Funds (NL)	506,562,351	155,254,241	--	--
Federal Funds (NL)	20,145,859	21,575,775	21,243,619	21,243,619
Total Funds	**$1,007,789,740**	**$710,659,737**	**$549,772,522**	**$546,589,762**

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.

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 Connect Oregon phases I – VII. Debt service is paid from State Highway and Lottery Funds and is partially subsidized by federal funding. General Fund debt service pays 35% 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 2019-21 biennium, the Department expects to receive $21.2 million which will be used to offset debt service payments.

Legislatively Adopted Budget
At $546.6 million total funds, the 2019-21 legislatively adopted budget is $164 million, or 23.1%, less than the 2017-19 legislatively approved budget. The large reduction is due to the one-time Nonlimited Other Funds expenditure of $155.3 million for re-financing activities in 2017-19. This budget is $3.2 million, or 0.6%, less than the current service level.

Capital Improvements

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,404,009	8,971,348	7,853,672	17,353,672
Total Funds	**$5,404,009**	**$8,971,348**	**$7,853,672**	**$17,353,672**

Capital Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	47,000,001	6,300,000	--	20,000,000
Federal Funds	--	--	--	--
Total Funds	**$47,000,001**	**$6,300,000**	**--**	**$20,000,000**

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 2019-21 legislatively adopted budget of $20 million for Capital Construction provides funds to replace the South Coast and Central Coast Maintenance Stations. The South Coast Maintenance Station is a consolidation project for three current ODOT facilities: Coos Bay Maintenance Station, Davis Slough Maintenance Station, and the Coquille Construction Office. The Central Coast Maintenance Station is the relocation of the Ona Beach Maintenance station and co-location with the Department of Forestry in Lincoln County, above the tsunami zone.

The Capital Improvements expenditure limitation of $17.4 million Other Funds will fund 18 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. Also included is $9.5 million for state radio system equipment replacement.

ADMINISTRATION

PROGRAM AREA

DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,830,496	24,998,687	9,078,145	31,517,185
Lottery Funds	10,658,858	13,940,628	20,255,163	17,457,806
Other Funds	908,829,826	1,027,206,922	910,975,927	1,134,383,875
Other Funds (NL)	194,774,768	129,986,751	133,988,178	133,988,178
Federal Funds	--	1,446,795	--	--
Total Funds	**$1,130,093,948**	**$1,197,579,793**	**$1,074,297,413**	**$1,317,347,044**
Positions	884	914	859	916
FTE	855.27	906.96	858.50	906.95

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 (OPB), and Oregon Historical Society (OHS) debt service and General Fund support for the State Fair, OPB, and OHS. *The Governor line-item vetoed a $500,000 General Fund appropriation made to DAS for distribution to the Association of Oregon Counties after the conclusion of the 2019 legislative session. This funding is included in this analysis since it is part of the 2019-21 Legislatively Adopted Budget.*

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 primarily comes from 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, State 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 attempts to allocate the assessment equitably. Payments by state agencies to DAS are controlled through the budget review and approval process. Over 45% of DAS revenues received through assessments and charges for service 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 seemingly has less tangible value, and for services which they might prefer to forego, purchase elsewhere, or support on their own.

Chief Operating Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	285,200	5,354,057	2,654,792	3,106,551
Other Funds	18,873,420	22,014,905	21,685,814	25,021,400
Total Funds	**$19,158,620**	**$27,368,962**	**$24,340,606**	**$28,127,951**
Positions	62	64	59	63
FTE	60.84	61.95	59.00	62.40

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 systems and procedures, 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.

Revenue Sources and Relationships

General Fund supports prison population forecasting. Otherwise, most COO functions are funded through an assessment on 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. HB 2600 (2017) temporarily moved General Fund pass-through funding for the Court Appointed Special Advocates (CASA) program from the Housing and Community Services Department to DAS on a temporary basis.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $1,758,989, or 6.4% higher, than the 2017-19 legislatively approved budget.

Changes to the budget for the Chief Operating Office include:

- Added $455,127 General Fund to bring state support for local CASA programs to the 2017-19 legislatively approved level, increased Other Funds expenditure limitation by $2,516,684, and established one permanent full-time Operations and Policy Analyst 4 position (0.88 FTE) to work on transitioning CASA funding to a non-state entity no later than the beginning of the 2023-25 biennium.
- Added Other Funds expenditure limitation of $800,000 for an independent study to determine the preparedness of DAS IT to support and administer the Oregon State Payroll System (OSPS) replacement project. This funding was added on a one-time basis as planning money.
- Increased Other Funds Expenditure limitation by $462,722 and established two permanent full-time IT positions (1.88 FTE) to implement OregonBuys as an end-to-end enterprise e-procurement system. The two positions will be part of the DAS IT unit. The cost of the new system, including positions, will be paid through a one percent administrative fee on purchases made through the new system.
- Added $393,864 Other Funds and established two permanent full-time positions (1.76 FTE) to DAS IT to work on compliance, equipment replacement schedules, mobility, and asset management.

- Added $232,594 Other Funds expenditure limitation for the establishment of a permanent full-time PEM F management position (0.88 FTE) to support coordination of state government internal auditors and to focus on statewide level audits.
- Other Funds expenditure limitation reductions included eliminating on-call pay for DAS IT which reduced Personal Services by $122,000 Other Funds. This reduction will result in the lack of IT support for DAS divisions and some Boards and Commissions outside of standard business hours. Additional reductions included eliminating standard inflation on services and supplies of $78,547 Other Funds, taking additional vacancy savings of $393,629 Other Funds, and reduced Other Funds expenditure limitation by $385,876 due to the elimination of a vacant Executive Assistant position (1.00 FTE) and a vacant Information System Specialist 6 position (1.00 FTE).

Chief Financial Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	15,120,583	14,374,941	15,291,178	14,953,500
Total Funds	**$15,120,583**	**$14,374,941**	**$15,291,178**	**$14,953,500**
Positions	46	44	44	44
FTE	44.23	44.00	44.00	44.00

Program Description

The Chief Financial Office (CFO) establishes and enforces statewide budget standards and monitors agencies to ensure 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 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 developing and maintaining statewide budget systems. The CFO also supports accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, and financial reporting.

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.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Chief Financial Office is 4% higher than the 2017-19 legislatively approved budget. This increase is due largely to standard growth in Personal Services. Budget adjustments included adding $269,579 Other Funds expenditure limitation to continue an existing Limited Duration Information System Specialist 8 position as a permanent full-time position in the Capital Facility Planning section. This position will continue development of Computer Assisted Design tools to better utilize state-owned and/or leased facilities. Reductions included $47,661 Other Funds from eliminating most standard inflation on services and supplies, $377,066 Other Funds expenditure limitation was removed to reflect holding vacant positions for a longer than normal period of time, and $131,925 Other Funds was cut due to the elimination of a vacant Administrative Specialist position.

Office of the State Chief Information Officer

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	271,144		
Other Funds	55,694,473	64,400,459	59,200,433	80,380,170
Total Funds	**$55,694,473**	**$64,671,603**	**$59,200,433**	**$80,380,170**
Positions	77	106	104	118
FTE	72.44	105.38	104.00	115.18

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 the 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 the number of full-time equivalent positions. The 2017-19 legislatively adopted budget included $261,854 General Fund to hire a Chief Data Officer to maintain a central web portal for the publication of publishable data. For 2019-21, the costs of the new program were included in the OSCIO assessment rather than supported by the General Fund.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Oregon State Chief Information Officer (OSCIO) is $15.7 million, or 24%, higher than 2017-19 legislatively approved budget levels due to the funding of several large-scale IT initiatives.

Major Other Funds expenditure limitation adjustments include:

- Added $13,600,000 to address federal security compliance findings, aging firewalls, and weaknesses in state IT Security. No positions were approved because OSCIO is still developing the division of security roles and responsibilities between the new OSCIO centralized IT security functions and state agencies. OSCIO will return during the 2020 Legislative Session to request personnel resources needed once a centralized IT security roles and responsibilities matrix is completed.
- $6,180,817 and one permanent full-time position (0.88 FTE) was added to migrate all executive branch agencies to an OSCIO managed and secured Enterprise Office 365 system. This project should lead to the elimination of independently housed and managed email systems by state agencies within the executive branch, which should create savings in individual agency budgets. Transitioning all executive branch agencies will improve security by having one single active directory, allow for calendaring across agencies, create a

single global address book, provide statewide video conferencing, and allow the state to get the best Office 365 pricing.

- Increased Other Funds expenditure limitation by $1,240,296 and established six permanent full-time Assistant State CIO positions (3.78 FTE) to work on coordination and approval of executive branch information technology modernization plans. The positions are phased in over the course of the 2019-21 biennium with two starting October 1, 2019, two starting April 1, 2020, and the final two starting October 1, 2020.
- Added $1,391,027 and established three permanent full-time positions (2.64 FTE) to expand the "middle-mile" broadband network through the Oregon Fiber Partnership with Oregon's four research universities. The positions will transition to other projects once the broadband project is completed.
- Increased Other Funds expenditure limitation by $800,000 to purchase hardware, software, and professional services to support disaster recovery services at the State Data Center.
- $529,270 Other Funds and two permanent full-time positions (2.00 FTE) were added to create, track, and monitor performance targets associated with the IT supply chain management. This is a continuation of past biennium procurement initiatives.
- Other Funds reductions included eliminating standard inflation on services and supplies of $824,262, taking additional vacancy savings of $845,272, and reducing funding for IT Professional Services by $924,793.

Chief Human Resource Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	13,826,077	34,636,684	23,723,773	29,199,232
Total Funds	**$13,826,077**	**$34,636,684**	**$23,723,773**	**$29,199,232**
Positions	58	76	53	76
FTE	44.91	72.50	53.00	72.07

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. CHRO also provides executive recruitment services to state agencies and is responsible for implementing the pay equity statutory requirements passed in 2017.

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 centralized employee databases.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Chief Human Resource Office (CHRO) is $5.4 million, or 16%, lower than 2017-19 legislatively approved budget levels due to the removal of resources added in 2017-19 to implement a new human resources information system to replace the state's legacy system. The 2019-21 budget only includes on-going operational costs of the new Workday system.

Additional Other Funds expenditure limitation adjustments include:

- Added $3,548,121 and established eight limited duration positions (5.75 FTE) to support the implementation of the Learning Management module for Workday to modernize the state's online training systems and replace the legacy system, iLearn.
- Added 1,615,815 and established eight permanent full-time positions (7.04 FTE) to staff the Workday Support Team with subject matter experts. These positions will provide technical, help desk, and system administrative support to users of the new system.

- Added $686,177 and two limited duration positions (2.00 FTE) to manage the workday interface to the Oregon State Payroll System. This funding was approved on a one-time basis because once the Oregon State Payroll System replacement project is complete these positions will not be needed.
- Increased Other Funds expenditure limitation by $769,470 and established four permanent full-time positions (3.52 FTE), including one Executive Recruiter position and three positions to analyze, implement, and oversee the pay equity provisions of House Bill 2005 (2017). These three positions will receive, review, and respond to pay equity inquiries and appeals.
- Added $430,166 to support two permanent full-time positions (1.76 FTE) to assist in complex, highly sensitive internal agency investigations for the Executive Branch.
- Took a $773,000 Other Funds reduction to reflect savings from replacing the old Position and Personnel Data Base IT system with the new Workday system.
- Other reductions include eliminating standard inflation on services and supplies by $288,233 Other Funds, taking additional vacancy savings of $220,026 Other Funds, and $168,983 Other Funds from eliminating a long-term vacant position.

State Data Center

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds	165,764,559	148,758,829	137,179,937	149,656,869
Total Funds	**$165,764,559**	**$148,758,829**	**$137,179,937**	**$149,656,869**
Positions	155	158	152	153
FTE	155.00	158.00	152.00	152.76

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, along with 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 and some assessments based on factors other than usage. 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 2019-21 legislatively adopted budget for the State Data Center is $898,040 lower than the 2017-19 legislatively approved budget, which is less than a one percent decrease.

Other Funds expenditure limitation adjustments included:

- Added $15,286,000 to continue the State Data Center lifecycle replacement plan. Included in this package is the replacement of computing and network equipment, as well as upgrading operation system licenses and the replacement of mission critical tools that have reached end of life. The total includes $3 million of one-time costs to replace mission critical tools for tracking and billing that have reached end of life and are no longer supported.
- Added $729,339 and two limited duration positions (1.76 FTE) to build out additional co-location services at the SDC and ensure protection of existing SDC co-location customers. The positions will work with agencies interested in co-location equipment at the SDC on their transition needs, including equipment needs and configurations.
- Eliminated a long-term vacancy resulting in savings of $297,487 Other Funds.
- Additional reductions included lowering offsite co-location services which saved $526,310, eliminating standard inflation on services and supplies by $1,470,279 and Capital Outlay by $394,823 Other Funds, and taking additional vacancy savings of $1,085,374 Other Funds.

Enterprise Asset Management

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	100,288,607	101,123,008	96,454,647	102,528,014
Total Funds	**$100,288,607**	**$101,123,008**	**$96,454,647**	**$102,528,014**
Positions	203	204	197	201
FTE	200.09	203.50	196.50	200.50

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 operates and maintains 43 DAS-owned buildings and nine agency-owned buildings totaling over three million square feet of property. EAM also manages a portfolio of over 780 short-term and long-term leases for over 4.9 million square feet of space, mostly in the form of privately owned office space. These facilities are located across 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. For 2019-21, uniform rent was increased from $1.45 per square foot to $1.55 per square foot. 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 2019-21 legislatively adopted budget is 1.4% higher than the 2017-19 legislatively approved budget. A number of Other Funds reductions were made including reductions to services and supplies expenditures ($1,466,974), savings from lower utilities costs ($588,000) due to efficiencies gained in green materials and chemical use, cutting utility costs by $200,000 from lower building temperature set points, and removing surplus Other Funds expenditure limitation ($945,000). Additional Other Funds reductions included a $607,092 cut to reflect holding vacant positions for longer than normal to generate additional savings, and a $128,429 reduction from the elimination of a vacant custodial position. There were two major Other Funds expenditure limitation increases approved, $2 million to purchase additional fleet vehicles to replace existing fleet vehicles that have exceeded their useful life and $994,397 plus four permanent full-time Construction Project Manager positions (4.00 FTE) to address Planning and Construction Management workload demand from an increase in deferred maintenance and building renovation projects.

Enterprise Goods and Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	89,081,656	105,270,244	95,523,753	108,310,472
Other Funds (NL)	95,864,972	89,616,836	109,271,671	109,271,671
Total Funds	**$184,946,628**	**$194,887,080**	**$204,795,424**	**$217,582,143**
Positions	240	242	237	250
FTE	235.36	241.63	237.00	249.04

Program Description

Enterprise Goods and Services (EGS) consists of several programs focused on providing cost effective central services to state agencies. The Risk Management program purchases insurance for the state and is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The section investigates and resolves claims against the state and its employees and devises strategies that encourage agencies to minimize loss-related costs.

The State Procurement Office provides statewide purchasing and contracting direction, while working to leverage the buying power of state and local governments. The Publishing and Distribution program offers a full array of design, printing, finishing, metering, delivery, and mailing services. Financial Business Services (FBS) is responsible for the statewide payroll and financial systems, as well as the Datamart that provides reporting data for both systems. FBS also provides shared payroll services for client agencies and DAS.

Revenue Sources and Relationships

The revenue source for the Risk Management program's operating expenses is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment based on a share of forecasted statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. The amount and types of property owned, the number of employees and their work, and the types of programs agencies operate all contribute to the need for risk management services and products, principally insurance.

The State Procurement Office operations are supported through charges for service and assessment, which is based on the number of agency positions. The Office also receives revenue through direct fees for services and purchasing, consulting, and training fees. Both Printing and Distribution and Financial Business Services are financed through charges for services.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for Enterprise Goods and Services total Other Funds and Other Funds Nonlimited is $22.7 million, or 11.7%, higher than the 2017-19 legislatively approved budget. Other Funds Nonlimited increased by $4 million, or 3.8%, over the 2017-19 legislatively approved budget due to forecasted increases in payments into 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 $10 million from the Risk Fund to the General Fund for general governmental purposes to help address statewide General Fund budget needs.

Other Fund Limited expenditure changes include:
- Increased Other Funds expenditure limitation by $8,890,278 and added three positions (2.88 FTE) to implement OregonBuys as an end-to-end enterprise e-procurement system. Of the positions added in this package, two are limited duration and one is a permanent position. This package includes the implementation fee, ongoing SaaS fees, and technical support to decommission ORPIN, the legacy procurement system. Included is $800,000 in one-time costs for Quality Assurance consultants. The new system will be paid for through a one percent administrative fee on purchases.
- Added $3,891,234 on a one-time basis and establishes five limited duration positions (4.40 FTE) to support the planning phase of the Oregon State Payroll System and time tracking replacement project. This funding includes the cost of state staff, an Independent Quality Assurance vendor, and the price of the software subscription for one year. This planning funding should be sufficient to get the project to the February 2020 session, when DAS is expected to request funding to get the project to the end of the 2019-21 biennium.
- Increased Other Funds expenditure limitation by $3,239,109 and established two permanent full-time positions (1.76 FTE) to implement a multi-function printer program. This will be paid for through lease fees to agencies as a charge for services.
- Added $1,008,312 Other Funds to make four limited duration, full-time positions permanent. The positions work on project Basecamp, which is intended to simplify Information Technology procurement by negotiating standard IT supply chain agreements with vendors.
- $530,000 Other Funds expenditure limitation was added to provide funding for DAS Risk Management to replace the current Claims Management Information System. This new system will allow the program to replace manual programs and processes with current system and applications, communication with external systems, and more effectively manage claims.
- $847,237 was cut to reflect holding positions vacant for longer than normal, $735,850 Other Funds expenditure limitation was removed due to elimination of most standard inflation allowances for services and supplies, and $1,477,542 of postage savings was taken.

Enterprise Human Resource Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	7,217,848	2,239,581	--	--
Total Funds	**$7,217,848**	**$2,239,581**	**--**	**--**
Positions	25	7	--	--
FTE	24.64	7.00	--	--

Program Description
Enterprise Human Resource Services (EHRS) program unit was created as part of a past DAS reorganization. This reorganization was modified for the 2017-19 biennium with the transfer out to the Chief Human Resources Office of all programs formerly housed here except for seven positions providing direct Human Resources 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 included direction to transfer the last seven positions in this program area to the Chief Human Resources Office. This was implemented in the 2019-21 legislatively adopted budget as a technical adjustment to Current Service Level, therefore nothing will be budgeted in EHRS going forward.

Business Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,398,006	12,316,126	16,853,394	15,661,008
Total Funds	**$6,398,006**	**$12,316,126**	**$16,853,394**	**$15,661,008**
Positions	18	13	13	11
FTE	17.76	13.00	13.00	11.00

Program Description
The DAS Business Services Division coordinates agency-wide programs and internal processes and oversees the Department's finances and budget.

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 2019-21 legislatively adopted budget is $3.3 million, or 27% higher, than 2017-19 approved levels due almost entirely to increases in State Government Service Charges (SGSC) paid by DAS. All DAS-paid SGSC were consolidated from other program units into DAS Business Services. Other Funds expenditure reductions included $163,219 from the elimination of a long-term vacant position. A $273,725 reduction was taken in this program unit for a position being transferred to Enterprise Asset Management to work on efforts to reduce energy use by the agency. Additional reductions included eliminating standard inflation on services and supplies which reduced Other Funds by $42,309 and taking additional vacancy savings of $109,367 Other Funds.

Capital Improvements

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	3,993,650	4,403,176	4,570,497	4,570,497
Total Funds	**$3,993,650**	**$4,403,176**	**$4,570,497**	**$4,570,497**

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 2019-21 legislatively adopted budget is up slightly from the 2017-19 legislatively approved budget due to 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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	46,163,301	60,716,431	--	58,124,000
Total Funds	**$46,163,301**	**$60,716,431**	**--**	**$58,124,000**

Program Description
The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects costing more than $1 million in 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 always 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 2019-21 legislatively adopted capital construction budget funds a number of deferred maintenance projects to paid from the agency's Capital Projects Fund (no debt financing required) and four that are debt financed. The approved Capital Construction projects include:

- $10,524,000 Other Funds was approved for various capital and tenant improvements in multiple DAS-owned buildings to be paid from the Capital Projects Fund. These improvements include: roof replacements for the Executive Building, Human Services Building, Revenue Building, Publishing and Distribution, and the General Services Building Annex; resealing and flashing the roof of the State Data Center; energy efficient upgrades to lighting and control systems for the Agriculture Building, Public Service Building, and Department of Environmental Quality Building; addition of redundant power supply for the Agriculture Building; and upgrades to boilers, heaters, and HVAC systems in multiple buildings, including the Labor & Industry Building.
- $24,000,000 Other Funds, financed with Article XI-Q bonds, was approved to acquire a 175,000 sq. ft. facility in Wilsonville that offers warehouse, lab, and office space, as well as high-bay doors.
- $10,000,000 Other Funds, financed with Article XI-Q bonds, was approved to plan, design, and replace the electrical and HVAC system components of the Revenue Building.
- $8,600,000 Other Funds, financed with Article XI-Q bonds, was approved to repair the roof, replace exterior windows, update security, upgrade the HVAC system, and install high efficiency lighting and lighting controls at the Portland State Office Building.
- $5,000,000 Other Funds, financed with Article XI-Q bonds, was approved to replace wood window casements with double hung, vented, or sliding windows and install an additional ten secondary electrical distribution panels and feed power transformers and circuit breakers at the Justice Building.

Mass Transit Distributions

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	17,891,759	24,716,507	24,716,507	24,716,507
Total Funds	**$17,891,759**	**$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. These payments are not limited by the Legislature.

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 2019-21 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Bonds

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	359,096,140	877,789	747,641	747,641
Other Funds (NL)	52,763,345	390,057,143	423,919,680	423,918,680
Total Funds	**$418,188,709**	**$390,934,932**	**$424,666,321**	**$424,666,321**

Program Description

This budget structure includes expenditures for debt service and debt management costs on Pension Obligation 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 2017-19, disbursement of bonds sold for the benefit of public universities is done by the 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 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 increase over time as well.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for Other Funds Limited is set at a level to cover 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 related to this were removed from this program unit for 2017-19. The remaining Other Funds Nonlimited amount is for debt service payments on Pension Obligation Bonds.

DAS Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	20,389,904	16,137,623	15,826,180	20,802,064
Total Funds	**$20,389,904**	**$16,137,623**	**$15,826,180**	**$20,802,064**

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 improvement 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 2019-21 legislatively adopted budget supports payments on previously approved debt. In addition, $4,976,424 Other Funds expenditure limitation was added to pay debt service payments on bonds that are to be issued early in the biennium to fund a number of projects, including purchase of the Wilsonville Building.

Special Governmental Payments

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	15,545,296	20,028,196	6,423,353	27,910,634
Lottery Funds	10,658,858	13,940,628	20,255,163	17,457,806
Other Funds	6,921,602	47,688,566	--	100,510,328
Other Funds (NL)	21,925,468	--	--	--
Total Funds	**$55,051,224**	**$81,657,390**	**$26,678,516**	**$145,878,768**

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 from 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 2019-21 legislatively adopted budget adds one-time Other Funds expenditure limitation of $22,192,930 for 2017-19 approved grants funded through the issuance of Lottery Bonds not expected to be fully disbursed by the end of the 2017-19 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 $22,192,930 General Fund was approved for local and special projects. Cash projects and amounts include:

- $7,500,000 for disbursement to the United Way for census outreach and coordination activities
- $2,000,000 for disbursement to Clatsop County for the Clatsop County Jail
- $2,000,000 for disbursement to the Innovation Law Lab for Immigration Defense
- $1,500,000 for disbursement to Josephine County for rural fire protection district start-up costs once the district is created
- $1,000,000 for disbursement to City of Salem for the Gerry Frank/Salem Rotary Amphitheater
- $1,000,000 for disbursement to Umatilla-Morrow Head Start for an Early Learning Center
- $1,000,000 for disbursement to Umatilla County for surface water pumping costs of groundwater rights holders in Critical Groundwater areas
- $700,000 for disbursement to Central Linn School District for the 6th-8th grade Cobra Academy
- $500,000 for disbursement to Siuslaw Regional Aquatics Center for renovations of the Mapleton Pool
- $500,000 for disbursement to Tucker Maxon School for capital improvements
- $500,000 for disbursement to Association of Oregon Counties for urban growth boundary planning grants to Eastern Oregon Counties *(This appropriation was line-item vetoed by the Governor after the conclusion of the 2019 Legislative Session)*
- $500,000 for disbursement to Oregon Thoroughbred Owners and Breeders Association for safety improvements at race tracks holding race meets and education for thoroughbred owners and breeders
- $500,000 for disbursement to Lutheran Community Services Northwest for drug abuse programs
- $500,000 for disbursement to Special Olympics Oregon for sports training and athletic competition
- $485,000 for disbursement to Clackamas County for Clackamas Women's Services
- $452,930 for disbursement to Douglas Timber Operators for a Rogue River Sediment Study
- $400,000 for disbursement to the Historic Portland Public Market Foundation for the James Beard Public Market
- $300,000 for disbursement to the City of Independence for a Mid-Willamette Valley Trolley
- $300,000 for disbursement to Ecumenical Ministries of Oregon for its runaway homeless youth program
- $250,000 for disbursement to the Liberty House of Salem for childhood abuse assessment and support services
- $175,000 for disbursement to Harney County School District #1J to drill a potable water well
- $100,000 for disbursement to Save the Salem Peace Mosaic to protect the River of Peace mosaic
- $30,000 for disbursement to Klamath County to acquire, install, and maintain stream gauges in the Klamath Basin

A total of $61,331,872 Other Funds expenditure limitation was added for the one-time cost of special payments associated with the disbursement of proceeds from Lottery Bond sales for local projects. Projects and amounts are detailed below. An additional $2,247,463 Other Funds was added for the cost of issuance associated with Lottery Bonds. There is no debt service allocated in the 2019-21 biennium, as the bonds will not be sold until the spring of 2021. Total debt service on all the projects described below is estimated at a total of $10,581,755 Lottery Funds for the 2021-23 biennium and $105,334,738 over the life of the bonds.

- $15,000,000 Other Funds for disbursement to the Eugene Family YMCA Facility
- $10,000,000 Other Funds for disbursement to City of Roseburg - Southern Oregon Medical Workforce Center
- $5,000,000 Other Funds for disbursement to the Oregon Coast Aquarium
- $5,000,000 Other Funds for disbursement to the YMCA of Columbia-Willamette to purchase the Beaverton Hoop YMCA
- $4,100,000 Other Funds for disbursement to Jefferson County - Health and Wellness Center
- $3,500,000 Other Funds for disbursement to Parrott Creek Child & Family Services - Building Renovation
- $2,500,000 Other Funds for disbursement to the Center for Hope and Safety - Hope Plaza
- $2,500,000 Other Funds for disbursement to the Wallowa Valley Center for Wellness

- $2,400,000 Other Funds for disbursement to the Port of Cascade Locks - Business Park Expansion
- $2,311,872 Other Funds for disbursement to Multnomah County School District #7 - Reynolds High School Health Center
- $2,000,000 Other Funds for disbursement to the City of Gresham - Gradin Community Sports Park
- $2,000,000 Other Funds for disbursement to the Curry Health District - Brookings Emergency Room
- $2,000,000 Other Funds for disbursement to the Hacienda Community Development Corporation - Las Adelitas Housing Project
- $1,600,000 Other Funds for disbursement to the Umatilla County Jail - Expansion/Mental Health Facility
- $1,400,000 Other Funds for disbursement to the Port of Morrow - Early Learning Center Expansion

Finally, $10,525,000 Other Funds expenditure limitation was added for one-time special payments associated with the disbursement of proceeds from Article XI-Q general obligation bond sales for the three listed projects below that will be repaid with General Fund. Cost of issuance for these projects totals $199,075. There is no debt service allocated in the 2019-21 biennium, as the bonds will not be sold until the spring of 2021. Total debt service on the projects described below is estimated at $2,257,480 General Fund for the 2021-23 biennium and $15,834,095 General Fund over the life of the bonds.

- $5,325,925 Other Funds for disbursement to the Oregon State Fair for facilities capital improvements
- $3,000,000 Other Funds for disbursement to the Oregon State Fair for improvements to and repairs of the Horse Barn
- $2,000,000 Other Funds for disbursement to the Oregon State Fair for improvements to and repairs of the Poultry Barn

ADVOCACY COMMISSIONS OFFICE

Analyst: Morse-Miller

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	623,646	720,802	760,506	756,596
Other Funds	2,640	9,481	9,841	9,841
Total Funds	**$626,286**	**$730,283**	**$770,347**	**$766,437**
Positions	3	3	3	3
FTE	2.50	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: the Commission on Asian and Pacific Islander Affairs, the Commission on Black Affairs, the Commission on Hispanic Affairs, and the Commission for Women. The Commissions serve as liaisons between 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 primarily funded with General Fund. OACO receives some Other Funds revenues from donations, which are dedicated to the Commission to which the donation was made. Donations have decreased since the OACO's early years, and Other Funds generally account for just one percent of the agency's budget.

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 legislation of interest, reports 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 2019-21 adopted budget for the OACO is a 5.0% increase from the 2017-19 legislatively approved budget. Statewide adjustments for state government service charges, including Attorney General and Department of Administrative assessments, were reduced in the amount of $3,910 General Fund, resulting in a total funds budget of $766,437 for the OACO.

EMPLOYMENT RELATIONS BOARD

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,368,937	2,556,694	2,982,956	2,956,273
Other Funds	1,842,428	2,556,456	2,420,716	2,404,621
Total Funds	**$4,211,365**	**$5,113,150**	**$5,403,672**	**$5,360,894**
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 55% General Fund and 45% 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 represented 82% of cases and state agencies 18% for fiscal year 2019. A Legislative workgroup convened in 2011 evaluated a number of local government funding models and was unable to identify a viable alternative to fund local government cases other than state General Fund.

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 2019-21 is $2.1 million, which is based on a $2.34 assessment per employee per month, which is up from the 2017-19 assessment of $2.14. 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 2019-21 biennium, the agency assumes 37,000 will be covered employees and pay the assessment. During the 2015-17 biennium, the agency identified and began assessing an additional 1,000 employees that the agency previously 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 to be $327,787 in such fee revenue for the 2019-21 biennium.

ERB may charge $1,000 total for the first two mediation sessions, up to $625 for the third and fourth mediation sessions, and $1,000 for any additional sessions. A mediation fee is evenly split by the participating parties. Most mediations rarely go beyond two sessions. The statutory application fee for inclusion on the State Conciliation Service's list of qualified arbitrators is $100 and the annual fee to remain on the list of qualified arbitrators is $150.

ERB expects to have $3 million in available Other Funds revenue to support its legislatively adopted budget of $2.4 million. This includes a beginning balance of $561,065 and an ending balance of $522,300, which represents 4.8 months of operating reserves.

Budget Environment

Beginning in the 2013-15 biennium, at the direction 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. ERB 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. Lastly, the Legislature approved an electronic case management application that includes an electronic filing feature.

For fiscal year 2019, the agency had 16 state cases, 50 local government cases, and no private sector cases. 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. ERB continues to see improvement in the timely disposition of cases across most case-types.

On June 27, 2018, the U.S. Supreme Court issued a ruling on a landmark labor law case concerning the power of labor unions to collect fees from non-union members. In *Janus v. AFSCME Council 51*, the United States Supreme Court held that public-sector "agency shop" arrangements were invalid under the First Amendment. "Fair share" and "agency shop" arrangements are part of Oregon's PECBA. For Oregon, that means that many public-sector employers and labor organizations had their fair-share provisions invalidated. Additionally, the decision means that numerous provisions of PECBA were also effectively invalidated. In response to the *Janus* decision, the Legislature enacted HB 2016, which made a number of changes, including allowing a public employee to enter into an agreement with the labor organization to authorize payroll deductions and expanding the definition of "employment relations" to include labor organization access to, and communication with, represented employees. Additionally, HB 2016 expanded the definition of an unfair labor practice and made disputes between a public employee and a labor organization about the existence, validity, or revocation of an authorization for the deductions and payment resolvable through an unfair labor practice proceeding before ERB. HB 2016 also makes attempting to influence an employee to resign from or decline to obtain membership in a labor organization or encouraging an employee to revoke an authorization for deductions for payment to a labor organization an unfair labor practices by a public employer. Given the expansion of unfair labor practices in HB 2016, ERB might experience an increase in unfair labor practice filings. Additionally, some aspects of HB 2016 may be challenged in federal court as being unconstitutional under the U.S. Constitution.

Legislatively Adopted Budget

The legislatively adopted budget for ERB is $5.4 million total funds, including $3 million General Fund and $2.4 million Other Funds. The total funds budget is $247,744 (or 4.8%) more than the 2017-19 legislatively approved budget. The budget includes 13 positions (13.00 FTE). The budget includes the following:

- $36,419 for a fund shift of one position from 30% General Fund and 70% Other Funds to 56% General Fund and 44% Other Funds to conform to the agency's overall position fund split.
- $38,224 General Fund decrease for a one-time General Fund to Other Funds (excess mediation fee revenue) shift in services and supplies.
- Statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services and Attorney General rates.

Administration

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,192,460	1,199,776	1,582,594	1,524,787
Other Funds	920,242	1,185,291	1,234,018	1,258,728
Total Funds	**$2,112,702**	**$2,385,067**	**$2,816,618**	**$2,783,515**
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 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; 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 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.

Over the last ten years, the Board averages 50 case filings each fiscal year with 55 Board orders issued. For fiscal year 2019, case filings totaled 51 with 56 Board orders issued. For fiscal year 2019, three board orders were appealed to the Oregon Court of Appeals, which is about five percent of the Board's 56 issued orders for that year. On average, nine percent of the Board's orders are appealed to the Oregon Court of Appeals and less than one percent 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.

Beginning with the 2015-17 biennium, ERB began managing a NICUSA information technology contract to design, develop, maintain and host an electronic case management system (phase-I) and then add a web-based electronic filing and electronic payment capability (phase-II). Phase-I and phase-II were scheduled to be complete in the Spring of 2019; however, the completion date for phase-I has been delayed until the spring of 2020. The timekeeping and reporting functions are left to be completed. All upfront development costs are being paid by NICUSA, per a statewide contract. NICUSA charges an annual licensing and hosting fee estimated at $120,000 per biennia to recover its costs and fund ongoing operations and maintenance of the application. These costs were included in ERB's current service level budget.

Legislatively Adopted Budget

The legislatively adopted budget for the Administration program consists of $1.5 million General Fund, $1.3 million Other Funds, and 5 positions (5.00 FTE). The budget represents a $398,448 (or 16.7%) increase from the 2017-19 legislatively approved budget. The budget includes the following:

- $38,224 General Fund decrease for a one-time General Fund to Other Funds (surplus mediation fee revenue) shift in services and supplies.

Mediation and Conciliation Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	546,013	657,246	669,414	666,918
Other Funds	428,668	770,158	530,832	528,871
Total Funds	**$974,681**	**$1,427,404**	**$1,200,246**	**$1,195,789**
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 on 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 91 cases for mediation services per fiscal year, of which 71 are local cases and 20 are state cases. For fiscal year 2019, there were 87 cases, of which 75 were local cases and 12 were state cases. On average, it takes 27 days for a mediator to become available after the submission of a request. For fiscal year 2019, a mediator was available in 21 days. Most disputes are resolved within two mediation sessions. On average, the agency's mediation/conciliation service resolved approximately 92% of contract negotiation disputes for strike-permitted employees and 72% for strike-prohibited employees. For fiscal year 2019, the agency resolved 100% of contract negotiation disputes for strike-permitted employees and 91% for strike-prohibited employees.

Legislatively Adopted Budget
The legislatively adopted budget consists of $666,918 General Fund, $528,871 Other Funds, and 4 positions (3.50 FTE). The budget represents a $231,615 (or 16.2%) decrease from the 2017-19 legislatively approved budget due to the restoration of a one-time $250,000 Other Funds fund shift from the prior biennium.

Hearings and Elections Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	630,464	699,672	730,948	764,568
Other Funds	493,518	601,007	655,866	617,022
Total Funds	**$1,123,982**	**$1,300,679**	**$1,386,816**	**$1,381,590**
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 (ALJs), one part-time elections coordinator, and one support staff. The ALJs 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. ALJs have resumed traveling to the site of the dispute, if outside of Salem. Following the hearings, the ALJs 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-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 ALJs 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 130 cases per fiscal year and 119 days until an ALJ-proposed order is issued. For fiscal year 2019, ALJs received 60 cases and issued a proposed order in 89 days. In 2019, the agency had 32 representation (election) cases. Cases that did not require a hearing were resolved within 35 days, on average.

Legislatively Adopted Budget
The legislatively adopted budget consists of $764,568 General Fund, $617,022 Other Funds, and 4 positions (4.50 FTE). The budget represents an $80,911 (or 6.2%) increase from the 2017-19 legislatively approved budget. The budget includes the following:

- $36,419 for a fund shift of one position from 30% General Fund and 70% Other Funds to 56% General Fund and 44% Other Funds to conform to the agency’s overall position fund split.

FAIRS – COUNTY AND STATE

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,015,299	1,015,299	1,634,666	1,597,000
Lottery Funds	3,864,000	3,828,000	3,828,000	3,828,000
Total Funds	**$4,879,299**	**$4,843,299**	**$5,462,666**	**$5,425,000**

<u>Overview</u>

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 in Salem 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.

<u>Revenue Sources and Relationships</u>

ORS 565.447 allocates 1% of net lottery proceeds 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 revenue from rents, tickets, and other non-state sources.

Pass-through expenditures are technically included in the DAS budget, but are displayed separately in Legislative Fiscal Office publications.

<u>Legislatively Adopted Budget</u>

The 2019-21 budget set the amount going to county fairs at $3,828,000 Lottery Funds, which is the same level of Lottery Funds support allocated in the 2017-19 biennium.

The adopted budget also includes $1,015,299 General Fund for the Oregon State Fair that is transferred to the Oregon State Fair Council. An additional $581,701 General Fund was added in the 2019-21 adopted budget for debt service payments on bonds issued in 2015-17 to refurbish facilities on the State Fair grounds. The DAS adopted budget also includes Other Funds expenditure limitation for proceeds from the sale of Article X1-Q general obligation bonds. These funds will be transferred to the Oregon State Fair Council in the form of a grant to finance the capital costs of three projects. General Fund supported debt service will be paid through DAS in the 2021-23 biennium. These new bond projects are:

- $3,000,000 to make capital improvements and renovate the Horse Barn at the Oregon State Fairgrounds;
- $2,000,000 to make capital improvements and renovate the Poultry Barn at the Oregon State Fairgrounds; and
- $5,325,925 to make capital improvements and address deferred maintenance needs on multiple facilities at the Oregon State Fairgrounds.

GOVERNMENT ETHICS COMMISSION, OREGON

Analyst: Beitel

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	2,477,666	2,758,688	2,934,592	2,903,298
Total Funds	**$2,477,666**	**$2,758,688**	**$2,934,592**	**$2,903,298**
Positions	9	9	9	9
FTE	8.88	9.00	9.00	9.00

<u>Overview</u>

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 education to formal sanction. The Commission's emphasis is on providing training, general advice, staff opinions, or formal Commission-issued advisory opinions. A complaint filed with the Commission 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, civil penalty, and/or forfeiture. Contested cases are handled through the state's administrative hearings process. Contested case decisions may be appealed to the state Court of Appeals.

<u>Revenue Sources and Relationships</u>

The Commission's 2019-21 legislatively adopted budget includes $3.7 million in available Other Funds revenue to support its legislatively adopted budget of $2.9 million. This includes assessment revenue of $3 million, a beginning balance of $738,168, and an estimated ending balance of $795,819, which represents slightly over six 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 originate as General Fund.

One-time special assessments were approved in the 2013-15 and 2015-17 biennia to support implementation of two electronic reporting systems. The 2013-15 budget included a special assessment of $800,000 for an electronic filing system for lobbyists and public officials who must file quarterly and annual reports, including lobbyist registrations, lobbying expenditure reports, legal expense trust fund reports, and annual statements of economic interest. The 2015-17 budget included a 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 $38,807 in actual fines and forfeitures during the 2015-17 biennium and estimates collecting $30,000 in the 2019-21 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 113 complaints in calendar year 2018, with 61 ethics (54%), 48 executive session (42.5%), and four lobby (3.5%) complaints and has one contested case outstanding. Complaints were for respondents from the following jurisdictions: cities (42%); counties (6%); state (5%); education (17%); special districts (19%); and other (11%). Complaints received in 2018 represent a 3.3% increase from the 97 average annual complaints received between 2013 and 2017. Complaints have continued to increase since a significant decrease in 2016 due 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. The Commission attributes increases in complaints to public awareness of ethics laws as a result of training programs and several high-profile ethics investigations.

During the 2015 session, the Legislature enacted a series of ethics reforms. 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 launched the electronic case management system in January 2017, providing online access to advice and final disposition of cases, as well as the ability to submit complaints electronically. The case management system creates 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.

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 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 2019-21 legislatively adopted budget is $2.9 million Other Funds and includes nine positions (9.00 FTE). The adopted budget is $144,610 (5.2%) more than the 2017-19 legislatively approved budget. The increase is attributable to standard personal services growth and inflation for services and supplies expenditures. Budgeted expenditures include $1.9 million (65%) for personal services and $1 million (35%) for services and supplies.

OFFICE OF THE GOVERNOR

Analyst: McHugh

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,529,028	13,660,135	15,362,514	16,491,702
Lottery Funds	3,434,970	3,723,949	4,094,546	3,932,736
Other Funds	2,451,565	3,413,769	3,621,636	3,910,275
Federal Funds	--	3,585,152	--	--
Total Funds	**$17,415,563**	**$24,383,005**	**$23,078,696**	**$24,334,713**
Positions	62	61	59	62
FTE	60.75	59.13	58.50	61.63

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. That federally funded program was only housed in the Office of the Governor for a short period of time and was then transferred to the Higher Education Coordinating Commission.

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 include 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 assessment. The Economic and Business Equity program is funded from assessments on agencies that have capital construction in their budgets, and also receives funds from sponsoring conferences. Federal Funds expenditures in the 2017-19 budget were for the Oregon Volunteers program which, along with its funding, was transferred to the Higher Education Coordinating Commission.

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, as well as by hiring staff and having other agencies pay the salaries. 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, but the practice has continued since that time.

The Legislature still has concerns with the source of funding for positions in the Governor's Office, especially when the positions and funding sources are not explicitly part of the Governor's Office budget. As a result, a budget note was adopted requiring an evaluation of the funding methodology used by the Office for position costs. In addition, the budget note establishes that the policy going forward is that positions administratively assigned to the Governor's Office that are funded in another agency's budget or are otherwise "on loan" to the Governor's Office should be limited to needs that are temporary in nature.

Legislatively Adopted Budget

Excluding the federal funds associated with the Oregon Volunteers program, the 2019-21 legislatively adopted budget of $24.3 million is $3.5 million above the prior biennium level and is $1.3 million above the current service level. The budget included the addition of a position (Education Policy Advisor) transferred in from the former Chief Education Office and accommodated some reorganization and reclassification of staff; overall, there is an increase of three positions (3.13 FTE). Other specific changes to the budget include:

- A permanent, full-time Diversity and Coordinator position was added to analyze programs, policies, and practices related to statewide affirmative action, diversity and inclusion, and business equity programs. The cost of the new position for 2019-21 is $216,305 Other Funds.
- Continues one limited duration Census Coordinator position to serve as the primary point of contact for Oregon Census 2020 activities and issues. The cost of the position is $235,938 General Fund.
- Increased Other Funds expenditure limitation in the amount of $140,000 was provided for additional small business forums to be held around the state; the revenue source is an anticipated increase in donations to hold such events.
- Funding was approved 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.
- Other standard statewide adjustments.

OREGON HISTORICAL SOCIETY

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2017-19 Current Service Level	2017-19 Legislatively Adopted
General Fund	1,125,000	900,000	750,000	2,000,000
Lottery Funds	210,392	360,652	412,392	412,392
Total Funds	**$1,335,392**	**$1,260,652**	**$1,162,392**	**$2,412,392**

Overview

The Oregon Historical Society (OHS) was chartered by the state in 1898 to gather and preserve documents, manuscripts, publications, films, recordings, and artifacts. The organization also supports local historical societies, museums, and heritage efforts statewide. Agency facilities include the Oregon History Center's regional research library and museum and other sites. OHS offers education programs through the Society's mobile museum and school services. The agency produces the *Oregon Historical Quarterly* and books from its press. The Society also coordinates the Century Farms and Ranch Program, the Oregon Geographic Names Board, and liaisons with 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 over the years, but has been consistently provided in the last few 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, or current service level is $750,000. This was reduced to $738,750 in 2013-15, raised by $375,00 on a one-time basis to $1,125,000 in 2015-17, and increased again on a one-time basis to $900,000 for 2017-19.

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 2019-21 legislatively adopted budget operations grant was increased to $2 million General Fund on a one-time basis. The grant for operational support is more than double the 2017-19 grant amount. The adopted budget also includes $412,392 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.

OREGON STATE LIBRARY

Analyst: McHugh

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	3,410,982	4,060,172	4,202,817	4,200,159
Other Funds	5,839,536	6,842,189	7,042,377	6,987,429
Federal Funds	4,171,184	5,449,791	5,504,648	5,221,519
Total Funds	**$13,421,702**	**$16,352,152**	**$16,749,842**	**$16,409,107**
Positions	42	42	41	41
FTE	40.04	40.04	39.04	39.04

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 operations of the State Library.

Revenue Sources and Relationships

OSL is funded with 25.6% General Fund, 42.6% Other Funds, and 31.8% Federal Funds.

OSL expects to have $8.5 million in Other Funds revenue, including a beginning balance of just under $800,000, to support its 2019-21 legislatively adopted budget. Other Funds revenues are mainly generated from the following four sources: an assessment on 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 2019-21 is $7.1 million. While state agency assessment revenue is Other Funds in the State Library budget, it does include a General Fund component since some agencies use General Fund to pay the 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. Along with a beginning Other Funds balance of $784,228, OSL estimates receiving $450,000 in donations and earning $4,300 in interest during the 2019-21 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%).

OSL has been able to meet LSTA match and MOE in part by including donation funding in its calculations. If there were reductions in state resources, it could make maintaining these federal requirements difficult with the result being the loss of some funds, unless a federal waiver is granted.

Budget Environment

Oregon's state library, like most state libraries across the county, continues to face a myriad of challenges from having to justify its business model and funding level to keep pace with technologic and demographic changes. The State Library is focused on taking actions to meet the needs of customers and remain viable in the digital age. 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 recommendations, but 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. 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.

The Legislature introduced its own 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 the 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. There were no changes made to the OSL governance model during the 2019 session.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $16.4 million, including 41 positions (39.04 FTE), and is $56,955 more than the 2017-19 legislatively approved budget. OSL's budget consists of $7.6 million (46%) personal services, $4.9 million (30%) services and supplies/capital outlay, and $3.9 million (24%) special payments, which are primarily disbursed to local libraries.

Administration

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	103,916	140,440	130,329	129,934
Other Funds	1,001,471	1,829,097	1,877,547	1,868,762
Federal Funds	109,099	184,597	186,754	167,011
Total Funds	**$1,214,486**	**$2,154,134**	**$2,194,630**	**$2,165,707**
Positions	5	8	7	7
FTE	4.68	7.68	6.68	6.68

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 6% General Fund, 86% Other Funds (state agency assessment), and 8% Federal Funds.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget totals almost $2.2 million, including seven positions (6.68 FTE), and is slightly more than the 2017-19 legislatively approved budget. The budget is sufficient to continue all current programs and services. The change that occurred between 2015-17 and 2017-19 was due to the movement of three information technology positions (3.00 FTE) and related expenses from the Government Research Services program to the Administration program. The adjustment aligned the budget to the agency's organizational structure.

Library Development

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,046,723	2,288,052	2,375,453	2,377,795
Other Funds	209	143,330	148,785	148,785
Federal Funds	4,025,995	5,124,563	5,317,894	5,054,508
Total Funds	**$6,201,446**	**$7,555,945**	**7,842,132**	**$7,581,088**
Positions	8	8	8	8
FTE	7.50	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 federal 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 31% General Fund, 2% Other Funds, and 67% Federal Funds.

The budget for this program assumes federal funding from the Institute of Museum and Library Services under the LSTA grant. 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. Ready to Read Grants were distributed to 133 eligible libraries in all 36 counties. An additional 15 federal Library and Services and Technology Act grants were provided to improve services to public, academic, and school libraries.

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. 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 2019-21 legislatively adopted budget totals $7.6 million, including eight positions (7.50 FTE), and is just under $40,000 less than the 2017-19 legislatively approved budget.

Talking Book and Braille Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,260,343	1,631,680	1,697,035	1,692,430
Other Funds	218,565	322,734	326,287	325,833
Total Funds	**$1,478,908**	**$1,954,414**	**$2,023,322**	**$2,018,263**
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 and 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 84% General Fund and 16% 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 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 operating expenses.

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 receives over $3 million per year in in-kind federal support for the TBABS program.

Budget Environment

In 2018, the program had 5,304 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. The program also served 415 institutions and checked out 378,476 books in the first year of the 2017-19 biennium.

While the switch to digital talking books in September 2009 has stemmed the decline in registered users, the program still only serves a small percentage of the total number of Oregonians who are eligible to participate. Approximately 79% of TBABS participants are over 60 years old and 41% 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.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $2 million, including eight positions (8.24 FTE), and is $63,849 more than the 2017-19 legislatively approved budget.

Government Research and Electronic Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	4,619,291	4,547,028	4,689,758	4,644,049
Federal Funds	36,090	631	-	-
Total Funds	**$4,655,381**	**$4,547,659**	**$4,689,758**	**$4,644,049**
Positions	21	18	18	18
FTE	19.62	16.62	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.

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.

Revenue Sources and Relationships

The program is funded with 100% Other Funds; Federal Funds were no longer available after the 2017-19 biennium. The source of Other Funds is a state agency assessment 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. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay the assessment.

Budget Environment

GRES-registered users have access to over 90 research databases, reference assistance, document delivery, and interlibrary loan services. Approximately 21% of state employees were registered library users in the 2017-19 biennium. During the first year of the 2017-19 biennium, the State Employee Information Center recorded 430,170 contacts with state employees for information and provided 2,006 answers to reference questions from state agencies. GRES staff also cataloged and distributed 4,864 state government publications to designated state documents depository libraries throughout Oregon.

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 2019-21 legislatively adopted budget totals $4.6 million, including 18 positions (16.62 FTE), and is $96,390 (or 2.1%) more than the 2017-19 legislatively approved budget. The budgeted amount allows the agency to continue all current services and programs.

OREGON LIQUOR CONTROL COMMISSION

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	182,910,731	215,634,618	226,691,665	247,046,671
Total Funds	**$182,910,731**	**$215,634,618**	**$226,691,665**	**$247,046,671**
Positions	265	326	326	364
FTE	254.91	312.62	324.00	362.00

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 seven-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 OLCC began accepting license applications from growers, producers, wholesalers, and retailers on January 1, 2016; the first licenses were issued in April 2016. OLCC licenses and regulates marijuana licensees and marijuana worker permits, and tracks and inspects medical marijuana grow sites of 13 plants or more, medical marijuana processors, and medical marijuana dispensaries.

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 2019-21 biennium, revenue will first be disbursed to the Department of Revenue for its administrative costs; $875,000 per quarter related to ongoing regulatory costs for medical marijuana licensees of the Oregon Health Authority; and then distributed for the following purposes per statute:

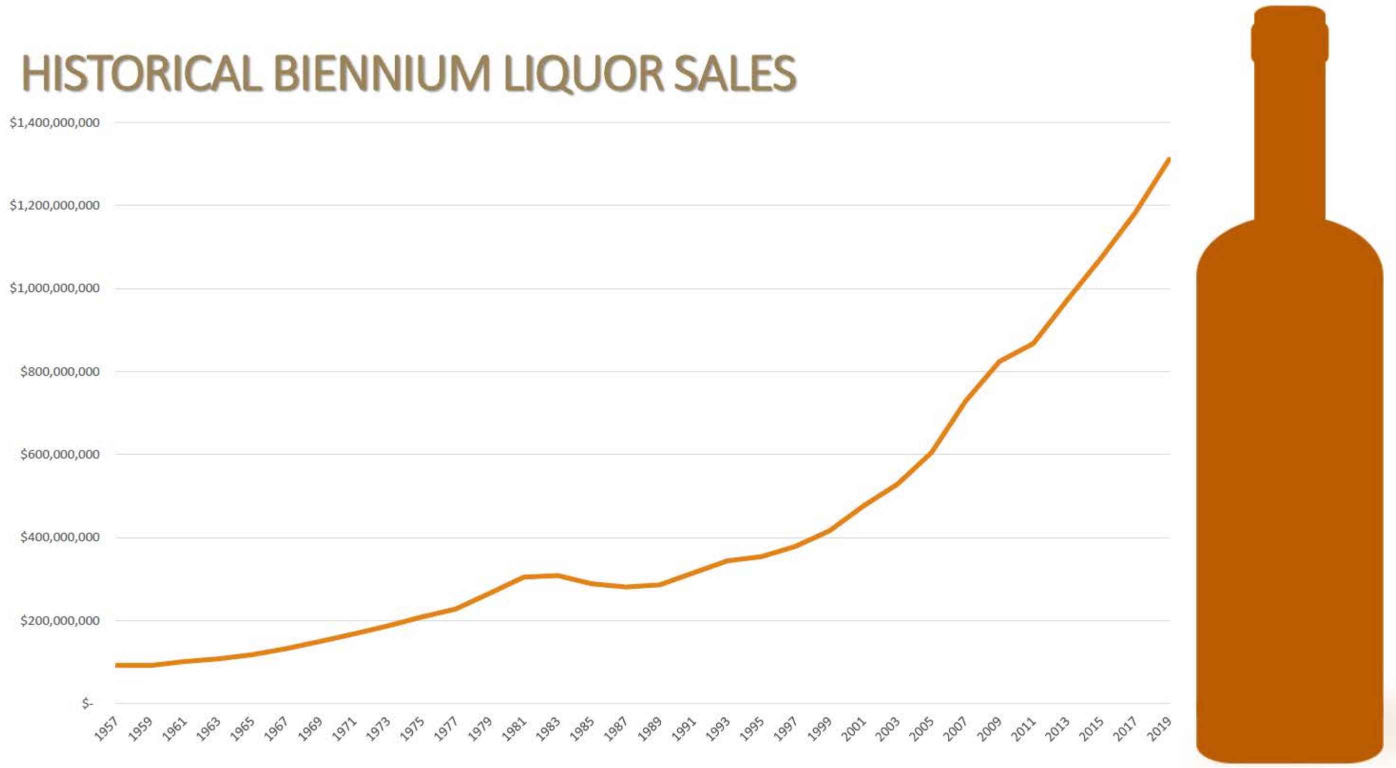
- 40% for the State School Fund
- 20% for purposes for which funds in the Mental Health, Alcoholism and Drug Services Account may be used
- 15% for state police
- 10% to cities, based on population and number of licensees
- 10% to counties, based on total available grow canopy size and number of licensees
- 5% for alcohol and drug abuse prevention, early intervention, and treatment services

The 2019 May revenue forecast $252.2 million in marijuana taxes available for distribution. The Legislature directed that OLCC's recreational marijuana regulatory costs are to be self-supporting, through fees charged to licensees estimated to generate $25 million in the 2019-21 biennium. The Legislature ratified OLCC's 2017-19 interim administrative increase to hemp fees, which generated an additional $325,000 in fee revenue.

Revenue generated from the liquor side of the agency's responsibilities is comprised of a markup on distilled spirits offered for sale in Oregon (96%, $1.54 billion); privilege taxes on malt beverages (beer) and wine (3%, $40 million); and license fees and fines, server education fees, and miscellaneous income (1.1%, $21.7 million). Unless otherwise directed, a statutory distribution formula specifies that 50% of the privilege tax revenues are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($19.7 million), and then

$697,000 is assumed to be transferred to the Wine Advisory Board (The Wine Board is also the recipient of $4 million in grape tonnage tax revenue). 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%), cities (20%), city revenue sharing (14%), and counties (10%). OLCC's alcohol sales represent the third largest generator of public funds, after income taxes and lottery receipts. Distributions for the 2019-21 biennium, per the legislatively adopted budget, are projected as follows: $341.5 million to the General Fund; $75.5 million for City Revenue Sharing; $107.9 million to cities; and $53.9 million to counties. A $0.50 per bottle surcharge is also imposed by the OLCC, with revenue dedicated exclusively to the General Fund. Of the $341.5 million General Fund share, $39.2 million is attributable to this surcharge.

The following illustrates historical liquor sales:



Even though Other Funds revenue supports OLCC operations, the agency's expenditures for liquor regulation directly affect the General Fund. 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, making expenditures necessary to enhance the generation of revenue, and maintaining a controlled distribution environment.

Budget Environment

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. Historically, there has been no statutory limit on the number of licenses that may be issued and, as of September 2019, the OLCC reported 2,218 active licensees and 1,672 applications awaiting review. The degree of review required for marijuana licenses - involving criminal and financial background checks, facility security, and proposed business and partnership structures - has exceeded the agency's ability to review and grant these licenses in a timely manner, despite additional staffing resources made available at multiple points in time. Coupled with a supply of product that far exceeds demand (estimated by the OLCC in January 2019 as enough to sustain current demand for 6.5 years), legislation (SB 218) was approved in 2019 that allows the OLCC to stop issuing new producer licenses when supply exceeds demand; SB 218 sunsets on January 2, 2022.

The OLCC also issues hemp certificates for hemp products sold in recreational marijuana stores, and requires those retail products to be clearly marked and tested. The fees for hemp certificates were increased in March 2019 to $1,000, and the fee increase was ratified with the passage of the agency's budget. The OLCC anticipates as many as 650 transactions in 2019-21.

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 demand for direct shipment; e-commerce transactions related to beer, wine, cider, and spirits; 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 36 new retail locations since 2015. The strong economy has resulted in about 424 new alcohol licensees per year. 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 54.2% since 2013-15. This growth in responsibility and corresponding personnel is driving major space constraints for the agency's administrative headquarters in Milwaukie. Information Technology needs reached a critical state, driving the approval of resources to integrate and replace aging equipment and liquor system platforms in both the interim and the 2019 legislative sessions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget assumes total expenditures of $247 million and pays agents' compensation at an average rate of 9.02% of sales; this is an increase from the average of 8.93% in the 2019-21 biennium. The budget is a 14.6% increase from the 2019-21 legislatively approved budget and a 9% increase from the 2017-19 current service level budget. The 2019-21 legislatively adopted budget assumed $9 million in additional revenue from a doubling of alcohol-related license types, excepting service permits. Inflationary adjustments were made to reduce the rate of inflation applied to various divisions within the OLCC, and state agency assessments and charges related to the Department of Administrative Services, Department of Justice and the Public Employee Retirement System were also applied.

Distilled Spirits

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	28,292,146	26,375,880	27,507,922	29,997,381
Total Funds	**$28,292,146**	**$26,375,880**	**$27,507,922**	**$29,997,381**
Positions	66	68	68	79
FTE	66.00	68.00	68.00	79.00

Program Description

Responsibilities of the Distilled Spirits program relate to liquor sales and distribution. As a "control state," the Commission has 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 produce revenue for state and local government. There are three divisions within the Program:

- Purchasing - Works with Retail Services Staff to provide distilled liquor to customers, manage inventory to meet customer demands and preferences, provide a varied selection, and represent Oregon's craft distillery industry.

- Wholesale Services – Responsibilities center around managing the liquor distribution center, including securely warehousing the liquor, filling merchandise orders and coordinating with carriers to ship products to liquor stores throughout the state, and settling claims for damaged or defective goods.
- Retail Services – Oversees operation of the statewide retail liquor store system, which consists of 284 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 first topped $1 billion in gross sales during the 2013-15 biennium. The 2019-21 legislatively adopted budget assumes gross sales of $1.54 billion, which includes $39.2 million from continuation of the bottle surcharge.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Distilled Spirits program is 13.7% more than the 2017-19 legislatively approved budget. The Legislature approved additional expenditures to meet shipping demands in the distilled spirits warehouse. Installation of a new conveyor system in 2016 and the ability to ship from multiple doors in the OLCC warehouse has inventory turning over faster. The OLCC had been utilizing temporary positions year-round to meet the on-going demand. The Legislature approved $2.2 million and 11 positions, consisting of a dedicated distilled spirits manager (previously, this duty had been handled by the agency's deputy director), distribution workers, and equipment operators. Related warehouse equipment, including cameras, shelving, new forklifts, dock shelters, locks, and conveyor belts, was also included and not intended to be part of calculations for purposes of estimating operating expenses in future biennia.

Public Safety Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	16,475,153	20,311,716	24,936,685	28,878,683
Total Funds	**$16,475,153**	**$20,311,716**	**$24,936,685**	**$28,878,683**
Positions	59	96	108	118
FTE	59.00	93.76	106.00	116.00

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 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.
    - As of January 2019, OLCC had oversight of more than 14,337 alcohol licensees, including 12,497 restaurants, bars, grocery, and convenience stores; 1,543 wineries and brewers/brew pubs; 223 distributors/wholesalers; and 114 distilleries. In addition, OLCC issued 9,000 special event licenses, 2,993 out-of-state certificates, and 166,311 service permits.
    - As of March 2019, OLCC reported 2,109 approved marijuana licenses, including 21 laboratories; 210 processors; 1,121 producers; 610 retailers; and 147 wholesalers. Pending applications across

those same categories totaled 2,021. Worker permits totaled 40,913, with an additional 2,525 under review.

- Administrative Policy and Process Division - Reviews the final OLCC investigative reports for technical sufficiency; provides due process to OLCC stakeholders by developing the agency record at contested case hearings; applies consistent policies and laws; and coordinates rulemaking for the agency.

Budget Environment

The number of licensees has a direct impact on resources available to OLCC, as well as the number of investigative, licensing, and enforcement personnel needed for compliance.

The number of marijuana-related applications continues to be difficult to address, while enforcement continues to evolve in areas such as packaging, labeling, laboratories, testing of product, and related recalls. The agency has moved from an "education"-based approach with licensees to a more traditional enforcement approach, facilitated by routine inspections of facilities and sites, and analysis of Cannabis Tracking System data for sales and transfer aberrations. OLCC serves as an information hub for information coordination with other enforcement entities, including local law enforcement or the Oregon Health Authority (for potential medical marijuana violations). Meanwhile, for alcohol, the average ratio of liquor regulatory specialists to licensees climbed from 1:162 in 2002 to 1:349 in 2018.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a 37% increase from the 2017-19 legislatively approved budget. Expenditure limitation was provided to reclassify existing positions for more efficient utilization of staff, 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). Expenditure limitation was increased to provide for enhanced dispatch services with better coverage and updated equipment. Licensing staff was added (5.00 FTE) to meet demand for timely review and approval, as were regulatory personnel (4.00 FTE). Expenditure limitation to facilitate reclassifications that utilize existing staff more effectively and comply with labor agreements and reviews by the Department of Administrative Services Chief Human Resource Office were also approved. An additional permanent position was added to augment the sole staff person who administers and ensures compliance with container recycling and redemption laws and administrative rules.

Administration and Support Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	16,475,153	24,636,285	21,164,037	28,110,463
Total Funds	**$16,475,163**	**$24,636,285**	**$21,164,037**	**$28,110,463**
Positions	59	80	68	76
FTE	59.00	79.51	68.00	76.00

Program Description

The administration and support program is central to both the public and inward-facing day-to-day operations of the OLCC, including all of the following: public, legislative and licensee information, education, and outreach efforts; financial audits of privilege tax payers and liquor agents; payment of agency bills; managing the maintenance of OLCC buildings and equipment; agency procurement of supplies, personnel, and information systems; IT system design, management, and maintenance; development of policy alternatives; and Commission support. 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 policy as articulated by the Commission is carried out.

- Management Consulting and Audit Services – Includes 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.

Budget Environment

The central challenge faced by the Administration and Support division is accommodating growth that has resulted from additional licensees, sales, and responsibilities. After creating and further refining the regulatory environment for recreational marijuana, OLCC now finds itself in the position of catching up - ensuring that recruitments are filled, responsibilities are met, performance deficits are identified and effectively addressed, and systems are modernized to meet the expectations of stakeholders.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for Administration and Support represents a 32.8% increase from the 2019-21 current service level. The majority of new expenditures are the result of enhancing information services, through a series of projects to modernize information systems and equipment, as follows:

- Integrating financial information, auditing, inventory, and retail systems, and providing online payments are the goals of the distilled spirits supply chain system, which involves replacing and linking several financial and inventory data systems ($1.5 million, representing partial project funding).
- Finishing the electronic privilege tax system as required by the passage of House Bill 2150 (2017) will enable beer and wine data to be electronically reported by producers and distributors and will allow for electronic payment of taxes owed which, in 2019, was still being done by mail ($2.5 million).
- Modernizing the data systems used by licensing and enforcement personnel will transfer and link data so that it can be easily referenced, updated, cross-checked, and utilized to determine if licensees are in good standing ($756,250, representing partial project funding).
- Limitation for State Data Center charges related to a new hosting agreement approved in 2018.

Expenditure limitation was also approved for IT system improvements related to recreational marijuana regulation, and is budgeted under the Recreational Marijuana program.

Four permanent, full-time positions were approved to plan, manage, and provide preliminary staffing for these projects, at a cost of $1,010,681 Other Funds. Additional expenditure limitation for the distilled spirits supply chain and the licensing and enforcement systems are expected to be required, and OLCC was directed to report and request the additional expenditure limitation it will need as the agency advances through the joint LFO/CIO information technology stage gate review process.

Three new positions were added to provide additional capacity in human resources and accounting functions, which have not kept pace with the growth in agency staff or licensees over time. Limitation was approved to develop an internal communications platform and to reclassify an existing position to resolve work out of class issues ($89,192). A permanent, full-time internal auditor position was also approved ($233,400).

Store Operating Expenses

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	105,588,568	123,927,415	129,132,366	135,385,704
Total Funds	**$105,588,568**	**$123,927,415**	**$129,132,366**	**$135,385,704**

Program Description

This program includes 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 whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits, and personal taxes.

Budget Environment

ORS 471.750(3) gives the Commission authority to determine the compensation of liquor agents. Agents' compensation comprises 54.8% of all OLCC expenditures and is by far the largest program in the agency's budget. Changes to the rate or amount of compensation approved could have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund and the budgets of other state agencies. By limiting the amount available for agents' compensation and utilizing the Emergency Board to grant additional limitation when sales exceed initial projections, the state is afforded the certainty needed to maintain a balanced budget.

The rate of monthly compensation for agents was originally determined annually. In 1979, the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. From 1980 to 1985, the basic formula did not change, but the Legislature added annual cost of living increases to the formula. In 1985, the Legislature directed OLCC to allocate agents' compensation based on a re-designed compensation schedule. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support, while encouraging sound retail practices and rewarding sales performance. Agents' compensation increases when consumption or prices increase. OLCC requests an increase in the expenditure limitation from the Emergency Board if actual sales exceed forecasted amounts. The amount of actual compensation received by an agent is influenced by the following 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 any of the factors change, the actual monthly rate earned by an agent will change to maintain the system-wide average on which compensation is budgeted. If sales exceed budgeted projections, OLCC will request additional expenditure limitation to maintain the average budgeted percentage of sales. The formula is complicated enough that questions regarding its application persist.

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 2019	8.93%
2019 to present	9.02%

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 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 $135,385,704 is authorized for the 2019-21 legislatively adopted budget, equivalent to an average rate of 9.02% of forecast sales for retail liquor agents (in liquor stores) and $2,941,000 for distillery agent's compensation, which will be paid separately, and is equivalent to an average of 17% of sales. The legislatively adopted budget is a 4.8% increase from the 2019-21 current service level, due to the approval of $1.34 million in additional expenditure limitation for retail liquor agents. 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.

OLCC committed to working with agents during the 2019-21 biennium to develop recommendations related to changes to the agents' compensation formula, in an effort to promote clarity, consistency, and address concerns brought forward by liquor agents and legislators. In addition, the following budget note was approved:

> **Budget Note**
>
> As of April 2019, the Oregon Liquor Control Commission was withholding bank card fees based on sales data for related items that had last been provided and analyzed at least a decade ago, resulting in payments that do not accurately reflect the recent sales experience of contract liquor store agents. The Oregon Liquor Control Commission is directed to update the rates or amounts withheld from agents, by requesting and analyzing data on liquor and related item purchases. OLCC is directed to utilize the same methodology as in previous biennia, but based on sales data from the previous calendar year (2018). Failure of an agent to present data requested by OLCC could result in the Commission assigning a withholding rate that may not accurately reflect the actual rate of bank card sales for related items of that store. The Oregon Liquor Control Commission is directed to report back to the Legislative Fiscal Office on the change in payments to each agent, based on this updated information. It is intended that going forward, OLCC will request and receive sales data on related items purchases a minimum of once per biennium so that compensation related to bank card fees can be based on more accurate and up-to-date information.

Marijuana Program Regulation

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	8,531,492	14,749,592	16,936,284	19,686,383
Total Funds	**$8,531,942**	**$14,749,592**	**$16,936,284**	**$19,686,383**
Positions	37	59	59	68
FTE	29.16	54.63	59.00	68.00

Program Description

In November 2014, Oregon voters approved Ballot Measure 91. OLCC was tasked with regulating the new industry. This was 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 moved 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. OLCC responsibilities 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, citations, and arrest authority for recreational marijuana facilities.
- Regulation of marijuana concentrates and extracts in products.
- Oversight of OLCC Medical Marijuana staff who work with the Oregon Health Authority to incorporate medical marijuana growers, producers, and dispensaries into tracing technology;
- Overseeing testing requirements and standards for product testing, packaging, and labeling of marijuana items.
- Working with the Department of Revenue to reconcile product movement with taxes paid.

Budget Environment

Regulatory expenses related to recreational marijuana are intended to be borne by licensees; this requires that OLCC closely monitor its fee revenue and regulatory expenses to ensure that marijuana-related costs are not being subsidized by the alcohol program. OLCC allocates a portion of agency overhead (central services and management expenses) to marijuana programs based on FTE.

When recreational marijuana was first legalized, OLCC concentrated its efforts on educating its licensees and the public, working with the former to come into compliance before applying sanctions when appropriate. This was because of the newness of the environment and the evolution of rules and processes in response to questions and scenarios. Now that the industry has begun to mature, OLCC has begun to more actively regulate its recreational marijuana licensees, performing over 1,600 inspections in 2018. While it still educates in an effort to help licensees come into compliance with minor violations, OLCC has developed a better sense of the tools and information systems requirements needed to effectively monitor licensees, in conjunctions with the regulatory responsibilities of its various partners, as follows:

- Local jurisdictions - law enforcement, code enforcement, siting;
- Oregon Health Authority (OHA) - medical marijuana activities/businesses, testing standards and requirements (although OLCC performs inspections and reports findings and concerns to OHA regarding medical marijuana producers);
- Department of Revenue (DOR) - tax collection (OLCC shares information with DOR regarding product production and movement to facilitate accurate tax collection activities);
- Department of Agriculture - commercial kitchens, scale certification, food handling activities, and pesticides

A Secretary of State audit looked at the regulatory framework as it existed in 2018 among OLCC, OHA, and the Oregon Environmental Laboratory Accreditation Program (ORELAP). Eight of a total of 23 recommendations were directed at OLCC, and included improving data controls and monitoring practices; establishing inspection frequency goals and metrics; utilizing the cannabis tracking system to store lab reports and analysis information; and reviewing lab staffing and expertise in conjunction with ORELAP. OLCC also produced a supply and demand study that found that Oregon’s supply of recreational marijuana at January 1, 2019 was enough to meet projected recreational consumer demand for the next six years. Even while prices of legal recreational cannabis were falling, sales and tax revenues continued to show year over year gains.

The market has continued to consolidate, with larger companies buying up smaller producers and retailers. There are now only three exclusive medical marijuana retailers in Oregon, since recreational marijuana stores can accept products from medical growers and sell them to medical patients. Licensees continue to adjust their business plans, ownership structures, and foot prints to respond to changing market dynamics, creating just as much for OLCC to review for a license renewal as it might for a new license.

In response to the oversupply and the complexity of license renewals, SB 218 placed a 2-year moratorium on processing new producer licenses, with the exception of those applicants who applied prior to June 15, 2018.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget included adjustments to align the number of licensees with anticipated use of the agency’s cannabis tracking system. Revenue was adjusted to reflect the ratification of a fee imposed by

OLCC on hemp producers who want their products in recreational marijuana stores. Also included in the legislatively adopted budget is additional expenditure limitation related to the marijuana program's share of enhanced dispatch services ($280,416), and limitation to reclassify regulatory positions consistent with labor agreements and duties ($53,588). Partial funding for the estimated cost of replacing the marijuana licensing and compliance system was also approved ($756,250), with the expectation that OLCC will request additional limitation as it proceeds through the stage gate approval process and more precise cost estimates are known. Nine positions were added and two existing positions were reclassified to match staffing resources to inspection and monitoring protocols, and to resolve existing work out of class issues ($2.3 million, including attendant services and supplies related to the new positions).

Medical Marijuana Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	5,255,787	6,786,428	5,610,114
Total Funds	**--**	**$5,255,787**	**$6,786,428**	**$5,610,114**
Positions	--	23	23	23
FTE	--	16.72	23.00	23.00

Program Description

The Medical Marijuana Program provides tracking of marijuana sales and production by OHA medical marijuana licensees with more than 12 plants, or growing for more than two medical cardholders. Violations of laws, tracking requirements, and other rules discovered by OLCC are reported to OHA for enforcement. In the past year, 335 separate violation cases were forwarded to OHA for review.

Budget Environment

The passage of SB 1057 in 2017 resulted in new laws and responsibilities for the regulation of medical marijuana. OLCC inspection, tracking, and management functions are funded by a transfer from DOR to OLCC of up to $875,000 per calendar quarter of recreational marijuana tax revenue. A separate budgeting structure was created to differentiate these costs and the unique funding source from the recreational marijuana program, to better track resource needs and uses.

AS Oregon Medical Marijuana Program registrants elect to transfer to the OLCC program or discontinue operations, the number of exclusively medical marijuana registrants has fallen; the number of registered medical marijuana growers as of September 2019 was 582. At the same time, there were 3 exclusive medical marijuana dispensaries and one processor.

Legislatively Adopted Budget

The budget was adjusted to reflect updated estimates of medical marijuana licensees subject to Cannabis Tracking System usage requirements and remove excess limitation and transfers. Enhanced dispatch services attributable to Medical Marijuana division personnel were included, as was expenditure limitation necessary to reclassify a position, a portion of the cost of which was offset by reducing allowed inflation on the Medical Marijuana division's services and supplies expenditures. In total, the Legislature approved a budget of $5,610,114 and 23 positions (23.00 FTE) for the Medical Marijuana program.

Capital Improvements and Construction

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	4,953,678	377,943	277,943	377,943
Total Funds	**$4,953,678**	**$377,943**	**$277,943**	**$377,943**

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. OLCC has developed and routinely updates a 10-year facility maintenance plan, which are reflected in this program.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is equivalent to the 2017-19 legislatively approved budget. Expenditure limitation in the amount of $150,000 was approved for patching and skylight repairs to stop water damage in the Milwaukie warehouse. This action is anticipated to result in a 2-6-year fix, during which time OLCC will evaluate longer-term facility needs, considering projected growth, ongoing maintenance expenses, and the cost of required seismic upgrades in its current warehouse. The Legislature included the following budget note:

> Budget Note
>
> The OLCC shall work with the Department of Administrative Services and the Capital Projects Advisory Board to evaluate costs and risks associated with remaining at its existing Milwaukie headquarters, and to identify available facility alternatives that could better meet the Department's long-term needs for storage, shipping, future growth, office space, maintenance, and ease of access to markets. The OLCC is directed to report back to the Emergency Board prior to the submission of its 2021 Agency Request Budget, present findings and seek input on identified alternatives, or request additional funding for further analysis if warranted.

OREGON PUBLIC BROADCASTING

Analyst: Siebert

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	750,000	500,000	500,000	1,000,000
Lottery Funds	2,013,018	1,572,415	915,135	915,135
Total Funds	**$2,763,018**	**$2,072,415**	**$1,415,135**	**$1,915,135**

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 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, or current service level, is $500,000 General Fund. This was reduced to $492,500 in 2013-15, raised by $250,00 on a one-time basis to $750,000 in 2015-17, and went back to the $500,000 base level of support for 2017-19.

In the past the Legislature has provided OPB with debt-financed 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 these 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 2019-21 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 from previous biennia. The adopted budget also doubled the operational support grant, on a one-time basis, to $1 million General Fund for the 2019-21 biennium.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	$100,000,000
Other Funds	98,827,001	101,657,012	105,912,270	263,256,648
Other Funds (NL)	9,856,259,772	11,094,000	12,493,087,721	12,504,627,192
Total Funds	**$9,955,086,773**	**$11,195,828,012**	**$12,598,999,991**	**$12,867,883,840**
Positions	381	379	369	419
FTE	379.26	375.18	369.00	414.32

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 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% 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 $15.7 billion in biennial Other Funds revenues, including investment earnings - $10.2 billion; contributions - $4.6 billion; insurance premiums - $532.3 million, and other revenues - $102.7 million. 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. Administrative expenses, which equate to the agency's Other Funds Limited budget, are estimated to total $263.3 million and will be paid from earnings.

For the first time, the budget includes a direct General Fund appropriation in the amount of $100 million to match employer contributions into side accounts. PERS may eventually receive revenues from SB 1566 (2018), such as federal tax decouple revenue, excess capital gains, excess estate taxes, and excess debt collections. PERS has already received $11.5 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands. PERS may eventually receive Sport Gambling revenues from SB 1049 (2019).

Budget Environment

The budget environment for PERS is complex and evolving. Structurally, past legislative reforms have been effective in reducing PERS benefits; however, employer costs will continue to rise to pay the legacy costs of retirees and active and inactive members, as well as 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. Oregon's PERS system is a mature system, with 176,000 active members supporting about 146,000 retirees and beneficiaries (1.19 active member per retiree/beneficiary). The system has approximately 45,993 inactive members or those members who are no longer in PERS-covered employment. The PERS system is consistently ranked as one of the most complex retirement systems in North America and one of the most expensive to administer. Lastly, recent legislation requires to the agency to undertake a number of new activities aimed at improving the funded status of the PERS system.

The PERS pension system funding level, as of December 31, 2017, was $61.8 billion in assets and $84.1 billion in liabilities for a deficit of $22.3 billion; however, there is $5.6 billion of pre-paid employer contributions ("side accounts") that reduce the deficit to $16.7 billion and a funded status of 80.1%. Employer side account assets are primarily from the proceeds of pension obligation bonds (POB). While some local jurisdictions continue to issue POBs, including school districts, no additional issuances are expected by state government. Approximately 72% of the UAL is attributable to members who are no longer in PERS-covered employment.

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 2019-21 will be 31.30%, which includes 11.6% for normal costs, 13.7% 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 74.9% of PERS' revenue from 1970-2017. Employer contributions provided 20.03% and employee contributions provided the remaining 4.8%. The PERS Board recently voted to keep the assumed earnings rate unchanged at 7.2%.

Finally, long-standing information technology deficiencies at PERS, including cybersecurity, business continuity, and disaster recovery were of significant concern to the Legislature in 2017. The Legislature, at that time, provided direction and funding to PERS to resolve the deficiencies during the 2017-19 biennium. While some work has been completed, it remains to be seen if all the issues have been resolved completely.

Legislatively Adopted Budget

The budget for the Public Employees Retirement System totals $12.9 billion Other Funds. Of the total, $12.5 billion is for benefit payments to retirees. The budget includes, for the first time, a General Fund appropriation in the amount of $100 million to match employer contributions into side accounts. The administrative budget totals an additional $263.3 million Other Funds and is a $161.6 million (or 159%) increase from the 2017-19 legislatively approved budget. The budget includes 419 positions (414.32 FTE).

The single largest budget increase, besides the $100 million General Fund appropriation and the corresponding $100 million in Other Funds expenditure limitation, is $40 million Other Funds and 43 positions for the implementation of SB 1049 (2019) - the PERS reform measure. Another material increase is $11.5 million for the

School District Unfunded Liability Fund which reflects a transfer of revenue from the Common School Fund under SB 1566 (2018). Continued funding is provided for: Oregon Growth Savings Plan ($1.6 million); an accountant position for the Individual Account Program's target-date fund earnings reporting ($198,066); cybersecurity/business continuity/disaster recovery ($442,191); the agency's move to the State Data Center ($1.7 million); and a limited duration Accounting Technician 3 for collections activities related to the 2012 Oregon Supreme Court Decision to retroactively reduce the earnings credited to member accounts ($357,679).

New funding was provided for: a one-time increase in deferred maintenance ($1.2 million); cybersecurity/business continuity/disaster recovery ($638,291); a Quality Assurance Engineer and an Electronic Content Management analyst for the Information Services Division ($356,295); a Benefit Calculations Supervisor, an Operations and Policy Analyst for the Individual Account Program's target-date fund, two Retirement Counselors, and an Office Specialist for Intake and Review for the Operations Division ($568,790).

Reductions in the budget include: the elimination of two long-term vacant positions ($631,523), as well as the elimination of excess or unneeded budget authority for rent and temporary staff ($644,528). There were also statewide adjustments based on reductions in Department of Administrative Services assessments and charges for services and Attorney General rates.

Tiers One and Two Pension Plans

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	8,590,606,787	9,183,000,000	10,261,052,242	10,272,591,713
Total Funds	**$8,590,606,787**	**$9,183,000,000**	**$10,261,052,242**	**$10,272,591,713**

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 an average of 25 years of service was 53% between the years 1990-2017; however, this percentage drops to 44% for the year 2017 only. The average monthly benefit for all retirees between 1990-2017 is $2,390 and is $3,036 for the year 2017.

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 1/Tier 2 has a combined actuarial accrued liability of $78.4 billion and actuarial value of assets of $57.7 billion leaving an unfunded accrued liability of $20.8 billion (73.5% funded), as of the December 31, 2017 valuation; however, these figures exclude $5.6 billion in pre-paid employer contributions or side accounts. By including side accounts, the funded status improves to 80.1%. Tier 1/Tier 2 revenue totaled $14.7 million from employer contributions and investment earnings totaled $8.2 billion. During this period, these two benefit plans paid out $4.5 billion in benefits and administrative expense.

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 2017 assumed earnings rate of 7.50%. For years when market earnings are less than the assumed earnings rate, a reserve balance is used to make up the difference. 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 0.2% in calendar year 2018.

Budget Environment
Tier One has a total of 190,740 members, as of the December 31, 2017 valuation. Of this number, there are 22,749 active, 15,525 inactive, and 152,466 retired members and beneficiaries. Tier Two has a total of 67,706 members, as of the December 31, 2017 valuation. Of this number, there are 35,958 active, 17,306 inactive, and 14,442 are retired members and beneficiaries.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $10.3 billion Other Funds Nonlimited is $1.1 billion (or 11.9%) more than the 2017-19 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.

Employer Resolution Programs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	$100,000,000
Other Funds	--	--	--	$100,000,000
Total Funds	**--**	**--**	**--**	**$200,000,000**

Program Description
The Employer Resolution Programs is a newly established program structure related to recent PERS reform legislation from the 2018 and 2019 sessions. SB 1566 (2018) established an Employer Incentive Fund to be used for a one-time match program. The match rate is up to 25% of a PERS employer's contribution. Once matched, state funds would be transferred into a new or existing employer's side account, at which time the state would relinquish all financial interest in the match. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program; however, in order to become eligible for matching funds, an employer must have an approved Unfunded Actuarial Liability Resolution plan.

SB 1566 (2018) also established the School Districts Unfunded Liability Fund (SDULF). The PERS Board is planning to transfer available funds into a newly created school districts pooled side account, at which time the state would relinquish financial interest in the funds. The PERS Board is to proportionately distribute, based upon administrative rule and an amortized basis, the pooled school district side account among all school districts as an offset to employer contribution rates. The pooled school districts side account will be counted as an asset for actuarial valuation purposes.

Revenue Sources and Relationships
SB 1049 (2019) appropriated $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund to be used for state matching funds. The corresponding employer match, up to 75%, is assumed to be at least $400 million for a total increase in assets of $500 million. The General Fund will be expended as Other Funds and the budget provides for $100 million of Other Funds expenditure limitation for the Fund. Once matched, Employer Incentive Funds will be expended to fund lumpsum employer side accounts, which are separately budgeted as Nonlimited Other Funds expenditures.

PERS may eventually receive revenues from SB 1566 (2018), such as federal tax decouple revenue, excess capital gains, excess estate taxes, and excess debt collections. PERS has received $11.7 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands. PERS may eventually receive Sport Gambling revenues from SB 1049 (2019). The following table summarizes the various revenue stream estimates by fund.

Fund	Revenue Source	2019-21 Estimate
School District Unfunded Liability Fund [SB 1566 (2018)]	Federal decoupled revenue (82%) Excess capital gains Excess Estate Taxes Excess debt collections Excess interest on unclaimed property	$129.8 million Indeterminate Indeterminate Indeterminate $11.5 million
Employer Incentive Fund [SB 1566 (2018) and SB 1049 (2019)]	Federal decoupled revenue (18%) Sports Gambling revenue (Lottery) General Fund appropriation Employer matching funds	$28.4 million Indeterminate $100 million Up to $400 million

PERS may need to request additional expenditure limitation depending upon the availability of revenue.

Budget Environment

SB 1566 (2018) created in PERS an Unfunded Accrued Liability Resolution program to assist an employer in the development of a plan to improve the employer's funded status and to manage projected employer rate changes. Employer participation in the program is voluntary. The PERS Board shall set, by administrative rule, the minimum requirements for an employer plan, and shall provide technical expertise in the development of an employer's plan upon request of the employer. Expenses of the Board related to the program are authorized to be paid from the Employer Incentive Fund.

PERS has received $53.6 million from 26 employers that may be eligible for $13.4 million in state matching funds as early as September 2019. PERS will continue to accept employer applications for matching funds until early December 2019 for employers with an Unfunded Accrued Liability greater than 200% of PERS-eligible payroll. Then, after a 180-day period has passed, which is the early December deadline, any PERS employer may apply for the remaining matching funds.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $200 million, including $100 million General Fund and $100 million Other Funds. The Department of Administrative Services was requested to unschedule $75 million of the General Fund appropriation, which may be scheduled once employer matching funds become available.

Oregon Public Service Retirement Pension Plan

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	36,637,883	39,000,000	75,188,960	75,188,960
Total Funds	**$36,637,883**	**$39,000,000**	**$75,188,960**	**$75,188,960**

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 has an actuarial accrued liability of $5.6 billion and actuarial value of assets of $4.1 billion, leaving an unfunded accrued liability of $1.5 billion (73.1% funded), as of the December 31, 2017 valuation. OPSRP revenue totaled $571.1 million for employer contributions and investment earnings totaled $554.6 million. During this period, OPSRP paid out $30.5 million in benefits and administrative expense.

OPSRP accounts have no guaranteed return. Returns are based on market returns produced by the Oregon Investment Council. Member accounts earnings crediting occurs once each calendar year and was 0.2% for 2018.

Budget Environment
OPSRP has a total of 135,759 members, as of the December 31, 2017 valuation. Of this number, there are 114,295 active, 17,349 inactive, and 4,115 retired members and beneficiaries. Program growth continues to be significant as OPSRP is the only open PERS retirement plan for new employees.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $75.2 million Other Funds Nonlimited is $36.2 million (or 92.8%) more than the 2017-19 legislatively approved budget and is set at a level expected to cover projected retirement system benefit payments.

Individual Account Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	783,690,283	1,056,900,000	1,423,365,167	1,423,365,167
Total Funds	**$783,690,283**	**$1,056,900,000**	**$1,423,365,167**	**$1,423,365,167**

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 system reforms in 2003, member contributions were made directly into Tier One and Two member accounts. Reform legislation redirected subsequent Tier One and Two member contributions into IAP accounts beginning January 1, 2004.

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. IAP payouts may also be transferred to the Oregon Growth Savings plan accounts, or any other qualified plan, upon withdrawal or retirement.

Revenue Sources and Relationships
The IAP requires PERS members to contribute an amount equal to 6% of eligible salary to an IAP account; however, some employers "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. Other Funds revenue from employer contributions totals $1.4 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 occurs once each calendar year and was a negative

0.72% for 2018, as compared to a marginally positive 0.11% return for the Oregon Public Employees Retirement Fund.

Budget Environment
There were 269,812 active IAP accounts, as of December 31, 2017, with an average IAP account balance of $33,210. The total value of all IAP accounts was $8.9 billion.

After the close of the legislative session in 2017, the Oregon Investment Council (OIC) voted to move the IAP to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member's IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and, ultimately, their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the Oregon Public Employees Retirement Fund. The OIC decision impacts all IAP member accounts.

The OIC decision was mandatory and provided for no member choice to make individual investment decisions. The 2018 Legislature enacted a member choice option (HB 4159; Chapter 118, Oregon Laws) effective January 1, 2019; however, a provision in the measure required the State Treasurer to notify the PERS Board by December 31, 2018 if legal and fiduciary standards prohibit implementation. In May of 2018, State Treasury (OST) made the determination, based upon the advice of outside legal counsel, rather than the Department of Justice, that legal and fiduciary standards prohibited implementation. Apparently, OIC and OST need legal immunity from liability if an IAP member were to lose funds ("safe harbor" provision). OST also noted that IAP members require information (i.e., disclosures) related to making a member choice investment selection. These two concerns require, according to OST, a legislative change that was characterized as minor in nature. SB 1049 (2019) provides Individual Account members a choice in selecting investment options beginning January 1, 2021.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $1.4 billion is $366.5 million (or 34.7%) more than the 2017-19 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.

Oregon Savings Growth Plan (non-budgeted program)

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 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), with a seven-member Deferred Compensation Advisory Committee that reports to the PERS Board. State agencies offer the OSGP, as well as approximately 288 local governments; however, some local governments, public universities, community colleges, and school districts cannot offer the OSGP because they offer alternative 457 or 403(b) plans not administered by PERS.

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.

The OGSP is funded with voluntary member contributions and member self-directed 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% of participant assets held in the trust. The costs of a third-party administrator contract for recordkeeping and financial services are an additional cost above those of PERS.

The OGSP has no guaranteed return. Returns are based on the investment choices of plan participants, which include options for age-based investing, mutual fund-type investments, or self-directed investments through a private brokerage firm.

Budget Environment

In total, the OSGP has assets of $2.4 billion and 31,989 total participants, as of July 2019. An average of these two amounts equals $73,760 per participant. The state government plan has assets of $2.1 billion and 27,057 participants and the local government plan has assets of $267.4 million and 4,932 participants. For the state plan, approximately 60% of participants are actively contributing with an average contribution across all age groups of $445.93 per month. A small percentage of participants have loans against their account balance of which the loans are either general or residential in nature.

By statute, the State Treasurer is the fund custodian and State Treasury provides, through an interagency agreement with PERS, contracts with private vendors for custodial banking services, investment advisors, and investment consultants. By statute, the Oregon Investment Council establishes a program for the investment of funds. ORS 243.472(4) provides that contributions to and benefits and refunds from the OSGP are not subject to state budgetary control.

Beginning in 2018, most OSGP administrative expenses were placed under expenditure limitation except those related to the third-party defined compensation administrator and investment management fees charged by the various investment funds to individual member accounts, which must remain non-budgeted. Such an action would increase the transparency of OSGP expenses, but more importantly would increase the level of accountability PERS exercises over supplemental funding provided to the third-party defined compensation administrator for such services as an account manager, a communication consultant, and field representatives. The contract also provides for marketing and electronic communications materials. The budget now includes the cost of custodial banking services, investment advisory services, and State Treasury investment advice.

The defined compensation administrator contract resources are in addition to state staff employed by PERS for the OSGP program, which includes seven state positions (7.00 FTE). These positions are for administration of the OSGP and to provide counseling and outreach to current or potential members. The revenue to support the PERS expense comes from gross revenues and earnings from the OSGP.

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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds (NL)	445,324,819	815,271,000	733,481,352	733,481,352
Total Funds	**$445,324,819**	**$815,271,000**	**$733,481,352**	**$733,481,352**

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 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 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 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 include 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. RHIA and RHPA revenues totaled $61.8 million for employer contributions and investment earnings totaled $75.7 million.

Budget Environment

RHIA has 46,656 retired members receiving benefits, 24,568 retied members eligible to receive benefits, and 13,535 dormant members. RHIPA has 15,785 active Tier 1/Tier 2 employees and 1,082 retired members receiving benefits. The RHIA funding level, as of December 31, 2017, was $553.3 million in assets and $437.6 million in liabilities for a surplus of $115.7 million and a funded status of 126.4%. RHIPA has $29.8 million in assets and $69.4 million in liabilities for an unfunded liability of $39.5 million and a funded status of 43%.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $733.5 million is $81.82 million (or 10%) less than the 2017-19 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. This particular Nonlimited budget is overstated when compared to historic expenditures and will receive closer legislative scrutiny in future sessions to better align the budget with projected expenditures.

Central Administration Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	3,401,149	4,341,844	4,445,979	5,527,774
Total Funds	**$3,401,149**	**$4,341,844**	**$4,445,979**	**$5,527,774**
Positions	11	19	15	21
FTE	11.00	16.50	15.00	20.92

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
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.

Budget Environment
The PERS Board announced the appointment of a new Executive Director on June 1, 2018. The long-serving Board Chair was replaced at the end of the member's term and at least one other board member will be replaced with the expiration of the member's term.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $5.5 million is $1.2 million (or 27.3%), more than the 2017-19 legislatively approved budget and includes 21 positions (20.92 FTE). The budget includes:
- $704,393 Other Funds and four positions (4.00 FTE) as a transfer from the Operations Division in order to re-establish a Communications Section.
- $388,736 Other Funds and two permanent full-time positions (1.92 FTE) to address communications issues related to the PERS reform measure (SB 1049).

Financial and Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	29,032,261	23,951,731	29,524,168	44,827,511
Total Funds	**$29,032,261**	**$23,951,731**	**$29,524,168**	**$44,827,511**
Positions	63	63	59	64
FTE	62.05	62.88	59.00	63.52

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 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 ancillary tasks. Human Resources, Retiree Health Insurance, and Deferred Compensation programs are also located within FASD.

The Division is comprised of the following sections: Financial Reporting, including actuarial services; Accounting and Cash Transactions; Budget and Fiscal Analysis; Procurement, Facilities and Logistics; Oregon Savings Growth Plan; Heath Insurance Program; and Human Resources.

Revenue Sources and Relationships

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. PERS has received $11.5 million in excess interest on unclaimed properties that was transferred to the agency by the Division of State Lands.

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 (2017), PERS has one of the highest plan design complexity scores in North America. High complexity can negatively impact service, front office productivity, and back-office costs. The study further notes that PERS "...pension administration cost was $144 per active member and annuitant. This was $38 above the peer average of $106." The reasons are lower transactions per full-time equivalent and higher costs for back-office activities, primarily information technology. PERS multiple retirement plan types are 51% more complicated than peer retirement systems and contribution rates are 30% more complicated. PERS had a relative complexity score of 93, which was among the highest in the database; the peer mean was 69.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $44.8 million is $20.9 million (or 87.2%) more than the 2017-19 legislatively approved budget and includes 64 positions (63.52 FTE). The budget includes:

- $11.5 million for the School District Unfunded Liability Fund and the Employer Incentive Fund established by SB 1566 (2018).
- $1.7 million for the Oregon Growth Savings Plan.
- $1.2 million for deferred maintenance.
- $357,679 Other Funds and one limited duration position (1.00 FTE) for collections of over-credited funds.
- $595,862 Other Funds and four permanent full-time positions (3.52 FTE) to address accounting and earnings crediting issues related to the PERS reform measure (SB 1049).
- $250,886 Other Funds reduction and the abolishment of one position (1.00 FTE) vacant position.
- $198,066 Other Funds and one permanent full-time position (1.00) for Target Date Fund accounting.
- $183,430 Other Funds reduction to reduce unneeded rent line-item.

Information Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	26,718,047	28,575,232	24,202,121	26,080,183
Total Funds	**$26,718,047**	**$28,575,232**	**$24,202,121**	**$26,080,183**
Positions	74	73	69	70
FTE	73.96	70.88	69.00	69.76

Program Description

The Information Services Division (ISD) provides technical support to all divisions of the agency. ISD ensures agency staff have the 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 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.

The Division is comprised of the following sections: Enterprise Applications; Enterprise Content Management; Technical Operations; and Support Administration.

Revenue Sources and Relationships

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.

Budget Environment

The Information Services Division operates in a complex and demanding information technology environment. The Legislature's direction to the agency to establish a warm-site and move to the State Data Center still have yet-to-be completed, even after funding and direction was provided by the Legislature. The Division, along with the agency as a whole, received a major setback for the Individual Account Program Administration information technology project, which the Legislature chose not to continue funding and the Department of Administrative Services - Office of the Chief Information Office rescinded all three Stage Gate approvals for the project. The project was out-of-scope, off-schedule, and significantly overbudget. PERS recently reported that the entire amount spent to date on the project is unsalvageable.

The agency has reported that the industry-standard Disaster Recovery and Business Continuity programs have been successfully completed and are now fully operational. PERS is also reporting that all cybersecurity concerns have been remedied. These three programs, however, still require review by the Legislative Fiscal Office. An information modernization effort of the agency has yet to advance legislatively due to outstanding concerns with the agency's Cybersecurity, Disaster Recovery, and Business Continuity deficiencies.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $26.1 million is $1.5 million (or 5.4%) less than the 2017-19 legislatively approved budget and includes 70 positions (69.76 FTE). The budget includes funding for three information technology related packages:

- $1.7 million Other Funds and two permanent full-time positions (1.76 FTE) transition to the State Data Center.
- $356,295 Other Funds and four permanent full-time positions (3.52 FTE) for Quality Assurance Engineering and Electronic Content Management.
- $129,751 Other Funds reduction and the abolishment of one vacant position (1.00 FTE).

Operations Division

	2015-17 Actual*	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
Other Funds	$32,608,969	38,080,978	40,285,930	39,297,301
Total Funds	**$32,608,969**	**$38,080,978**	**$40,285,930**	**$39,297,301**
Positions	208	204	208	207
FTE	207.29	206.71	208.00	206.52

**Sum of former Benefit Payments and Customer Services Divisions.*

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.

The Division is comprised of the following sections: Member Services; Data Services; Benefit Preparation; Benefit Calculations; Operations Technical Section; and Strategic Operations Resource Team.

Revenue Sources and Relationships
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.

Budget Environment
In 2017, the Operations Division processed approximately 13,500 employer reports containing 3.5 million member records. The Member Information Center handled 197,783 incoming/outgoing member phone calls. The Employer Service Center handled 42,574 of incoming/outgoing employer phone calls, 23,664 incoming member emails, and 86,717 employer emails. The Division conducted 12,331 retirement education presentations and 3,822 retirement application assistance sessions.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $39.3 million is $1.2 million (or 3.2%) more than the 2017-19 legislatively approved budget and includes 207 positions (206.52 FTE). The budget includes:
- $704,393 Other Funds and four positions (4.00 FTE) as a transfer from the Operations Division in order to re-establish a Communications Section.
- $461,098 Other Funds reduction to reduce unneeded expenditure limitation.
- $250,886 Other Funds reduction and abolishment of one vacant position (1.00 FTE).
- $568,790 Other Funds and four permanent full-time positions (3.52 FTE) to assist with retirement calculations, intake and reviews, and target date fund data reconciliations.

Compliance, Audit, and Risk Division

	2015-17 Actual*	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,775,826	$7,707,227	$7,444,052	8,464,165
Total Funds	**$5,775,826**	**$7,707,227**	**$7,444,052**	**$8,464,165**
Positions	25	20	18	20
FTE	24.96	18.21	18.00	20.00

*Former *Policy, Planning & Communications Division.*

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, and the state's Social Security Program. In addition, the Division also supports the PERS Board's Audit Committee. PERS, by statute, prepares a Comprehensive Annual Financial Report. PERS is also audited annually by an external audit firm hired by the Secretary of State's Audits Division.

The Division is comprised of four sections: Internal Audit; Policy Analysis and Compliance; State Social Security Program; and Security and Risk Management.

Revenue Sources and Relationships
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. ORS 237.420 allows PERS to set a rate to cover the cost of administering the Social Security program. PERS has set a rate of 70 cents per employee per year, or $15, whichever is higher. This will raise approximately $477,870 a biennium.

Budget Environment
Over the last five calendar years, the Internal Audit Section issued an average of 5.4 reports a year with an average of 25.6 recommendations. For calendar year 2018, the Section issued four reports with 13 recommendations. During the prior four and a half years, the Policy Analysis and Compliance Section averaged 354.9 appeals and 48.7 contested cases. For calendar year 2017, the Section had 170 appeals and 34 contested cases. Over the last five calendar years, the State Social Security Program averaged three referendums on employee votes on whether to obtain Social Security coverage and received 86.2 employer issues related to Social Security coverage, taxation, or benefits. For calendar year 2018, there was one referendum and 87 employer issues received. The Security and Risk Management Section, a recently formed section, has been in the process of standing up a Cybersecurity, Business Continuity, and Disaster Recovery program for the agency.

Legislatively Adopted Budget
The 2017-19 legislatively adopted budget of $8.5 million is $756,938 (or 9.8%) more than the 2017-19 legislatively approved budget and includes 20 positions (20.00 FTE). The budget includes:

- $442,191 Other Funds and two permanent full-time positions (2.00 FTE) for cybersecurity controls, disaster recovery, and continuity management.
- $638,291 for contracted vendor support of cybersecurity controls, disaster recovery, and continuity management programs.

Debt Service

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	1,290,750	--	--	--
Total Funds	**$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.

Core Retirement System

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	--	--	39,059,714
Total Funds	**--**	**--**	**--**	**$39,059,714**
Positions	--	--	--	37
FTE	--	--	--	33.60

Program Description
The Core Retirement Systems Applications Division was established to budget for project-related positions and contracts related to PERS' implementation of Senate Bill 1049 (2019). SB 1049 was a legislative initiative to primarily address future PERS employer contribution rate increases. SB 1049 is expected to reduce system-wide collared employer contribution rates by 5.43% and employer contributions by between $1.2 to $1.8 billion a biennium beginning with the 2021-23 biennium and into the future. To achieve these savings, SB 1049 made the following changes:

- Tier 1 and Tier 2 Unfunded Actuarial Labilities are re-amortized, on a one-time basis, from 20-years to 22-years after which point the amortization schedule for these benefit plans reverts to 20-years. This change is for the 2019 actuarial valuation only.
- Redirects a portion of employee contributions from the employee's defined contribution plan, the Individual Account Program (IAP), to partially fund prospectively an employee's defined benefit or pension plan ("Employee Pension Stability Account"), if the PERS funded status is less than 90% funded and an employee's earnings are more than $2,500/month or approximately $30,000 per year. Redirected funds will lower or offset the employer contribution resulting in employer savings. The redirect for each benefit plan, which begins on July 1, 2020, are as follows: (a) Tier One - 2.5% of eligible salary and wages; (b) Tier Two - 2.5% of eligible salary and wages; and (c) Oregon Public Service Retirement Plan (OPSRP) - 0.75% of eligible salary and wages. Employees can opt to voluntarily contribute into their IAP account the amount of redirected funds on an after-tax basis.
- Places a limit on the Final Average Salary, or salary used for pension benefit calculations, of $195,000 for Tier 1, Tier 2, and OPSRP employees retiring under Formula Plus Annuity and Full Formula benefit plans and for service beginning on or after January 1, 2020. The $195,000 cap is indexed to inflation on an annual basis.
- Eliminates restrictions on annual hours of employment for retired workers and the exemption on employers paying contributions on retired member payroll, beginning January 1, 2020. Employer's must continue to make employer contributions with regard to a participating retired member; however, such retirees will accrue no additional PERS retirement benefits. The employer contribution will be credited to an employer account as an additional payment above normal contributions. The return-to-work provision sunsets on January 2, 2025.

SB 1049 makes other changes to improve PERS system financing, including:
- Appropriating $100 million of General Fund, on a time-time basis, for expenditure into the Employer Incentive Fund, the purpose of which is to provide a state 25% match on pre-paid employer contributions, or side accounts, for school districts, community colleges, and public universities, under certain eligibility requirements. The corresponding employer match is up to 75%. The $100 million appropriation is assumed to generate $400 million in matching funds for a total increase in PERS assets of $500 million.
- Adds assets to the system by dedicating all net lottery revenues from sports betting games revenue to the Employer Incentive Fund to fund the state's 25% match on qualifying employer side accounts. The transfer of sports betting proceeds will sunset on December 31, 2041 due to the sunset of the Employer Incentive Fund

on July 1, 2042. The corresponding employer match is indeterminate at this time until the amount of sports betting games net lottery revenue deposited into the fund becomes known.
- Allows employers making lump sum or side account payments in excess of $10 million to choose the starting date for the amortization period to begin offsetting employer contributions, allowing the employer to time the use of side accounts with an anticipated spike in employer contribution rate increases. At least one public entity (Port of Portland) anticipates making a $10 million side account contribution under this authority.

SB 1049 also provides Individual Account members a choice in selecting investment options beginning January 1, 2021, provides for enhanced review of local government Pension Obligation Bond issuances, and requires the PERS Board to report to the Legislature on changes to actuarial methods and assumptions.

Revenue Sources and Relationships
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.

Budget Environment
The Legislature fully funded the PERS request for SB 1049 plus added $500,000 in contingency funding. The implementation of SB 1049 presents a major challenge for PERS which may struggle to manage the project risks and schedule. PERS has contracted with project management firms and various information technology vendors. The Department of Administrative Services - Office of the State Chief Information Officer is providing technical expertise and oversight support to PERS, including that related to the Stage Gate Process. The Department of Administrative Services - Chief Financial Office is providing financial management guidance and oversight. The Department of Administrative Services is also providing technical expertise related to procurement, human resources, and facilities management. Independent Quality Assurance will eventually be onboarded to provide additional oversight and quality control reports.

SB 1049 provides for an expedited review by the Oregon Supreme Court and the measure has been challenged in court. A decision of the Supreme Court is not expected until sometime in 2020.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is $39.1 million and includes 37 positions (33.60 FTE), all as one-time funding. The budget includes:
- $2.5 million Other Funds for quality assurance and testing.
- $2.5 million Other Funds for project management.
- $4.7 million Other Funds for temporary information technology solutions.
- $21.3 million Other Funds for permanent information technology solutions.
- $1 million Other Funds and four limited duration positions (3.84 FTE) for the Central Administration Division.
- $1.7 million Other Funds and four limited duration positions (3.64 FTE) for the Financial and Administrative Services Division.
- $588,506 Other Funds and three limited duration positions (2.76 FTE) for the Information Services Division.
- $3.3 million Other Funds and 22 limited duration positions (19.68 FTE) for the Operations Division.
- $897,577 million Other Funds and four limited duration positions (3.68 FTE) for the Compliance Audit and Risk Division.
- $500,000 Other Funds for a contingency reserve.

The budget report includes one budget note related to reporting back to the Legislature in 2020.

RACING COMMISSION

Analyst: Deister

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	5,871,560	6,422,599	6,866,762	3,899,658
Total Funds	**5,871,560**	**6,422,599**	**6,866,762**	**3,899,658**
Positions	14	14	14	14
FTE	12.27	12.27	12.27	6.14

Overview
The Oregon Racing Commission regulates the pari-mutuel industry in Oregon. The commission oversees horse racing at five county fair race meets, and, through 2019, at Portland Meadows, which was Oregon's only commercial race meet. The Commission regulates off-site simulcast wagering facilities, Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs, and pari-mutuel matters by auditing financial transactions and ensuring proper remittance, as well as licensing and technology review. The Commission background-checks and licenses all race meet participants, including trainers, jockeys, wranglers, and bet-takers. Staff inspectors investigate irregularities and safety issues, while race stewards are responsible for monitoring races with the goal of ensuring the integrity of the sport; safeguarding the well-being of participants, animals, and the public; and promoting horse racing in Oregon. There are approximately 3,700 licensed race meet participants, ten multi-jurisdictional hubs, and 8 off-track betting locations in Oregon.

Revenue Sources and Relationships
The Oregon Racing Commission is funded exclusively with Other Funds derived from the agency's take of live horseracing, simulcast wagering, and off-track betting sites; participant licensee fees; business licenses from companies that process pari-mutuel wagers, fines, unclaimed winnings; and historic racing wagers. The Commission receives one percent of bets made at live Oregon race meets and on simulcast events.

Racing Development funds support live racing at county fairs in the form of purses and other expenses or activities that benefit the Oregon horse racing industry. These dollars are generated from a fee on the gross wagering receipts of the ten Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs currently licensed in Oregon. Revenue from these internet-based wagering companies consists of a per diem licensing fee of $200 per day and a fee structure calculated on a percentage basis according to options set out in administrative rule, not to exceed $705,005 for fiscal year 2019; an automatic escalator of 2.5% per year has been included. Hub revenue is divided between agency operations and racing development (75%) and the state's General Fund (25%). Oregon faces competition from other states to attract Hub businesses and must provide a consistent regulatory structure as well as a predictable tax environment if these businesses are to remain in Oregon.

The agency will need to work with the Legislative Fiscal Office and Department of Administrative Services Chief Financial Office to adjust revenue projections for the second year of the biennium due to changes as a result of the sale of Portland Meadows, the site of what had been the state's only commercial race meet.

Budget Environment
Demographic trends, competition from other gambling opportunities, and the potential for wagering companies to relocate their operations to other states could hasten the steady decline of horse racing in Oregon. The owners of Portland Meadows announced that the property on which the track sits would be sold. In response, the Oregon Racing Commission allowed applications for simulcasting rights to be submitted, in anticipation of the passage of SB 77, which would allow simulcasting to be awarded to an entity other than Portland Meadows.

On March 27, 2019, at a special meeting of the Oregon Racing Commission, TMB Racing, LLC was awarded a license to conduct a live race meet together with the exclusive right to conduct simulcast wagering in Oregon. The effective date of the license was July 1, 2019. TMB Racing, LLC intends to conduct live racing at the Josephine County Fairgrounds in Grants Pass. The current application calls for 14 race days in 2019 and 35 race days in 2020. Plans include improvements to the race track and grounds in order to support the race meet, simulcast center, and historic racing facility. A "purse and condition contract" was executed between the Oregon Horseman's Benevolent and Protective Association and TMB Racing, LLC in mid-July 2019.

At the time of the agency's budget hearing and work session, none of these plans had solidified; the Legislature opted to approve a budget equivalent to approximately one year of operating funding with a budget note directing the agency to report back to the Legislature on the status of its operations, as follows:

> **Budget Note:**
> **Report to 2020 Joint Committee on Ways and Means**
> The Oregon Racing Commission is directed to report to the Joint Committee on Ways and Means during the 2020 Legislative Session for the purpose of receiving additional expenditure limitation and position authority for the 2019-21 biennium. The report is to include the following:
> - A status report on the sale of Portland Meadows.
> - The likelihood of commercial race meets in 2020 or 2021.
> - The conveyance of simulcast licensing authority and projected resultant revenue, as compared to the 2019-21 Agency Request Budget.
> - Any changes in activity related to advanced deposit wagering companies or multijurisdictional simulcasting and interactive wagering hubs since the adoption of the Oregon Racing Commission's 2019-21 budget.
> - Changes in the number of race participants, live race days, starts, and wagers at summer fairs and county race meets, from 2018 to 2019.
> - Updated projections on agency revenue and expenditures and number of licensees, as compared to the 2019-21 Agency Request Budget.
> - Identification of positions and related expenditures reduced or eliminated in the absence of a commercial race meet, as compared to the 2019-21 Agency Request Budget.
> - A request -- based on experienced and anticipated changes in resources and the need for regulatory oversight -- for additional expenditure limitation and full-time equivalent positions for the 2020-21 fiscal year.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of 3,899,658 represents a 39.3% decrease from the 2017-19 legislatively approved budget and a 43.2% decrease from the 2019-21 current service level. The budget included expenditure limitation to provide for the reclassification of an administrative specialist position to reflect additional duties. As noted above, the approved budget is equivalent to roughly one year of operating expenditures, with the expectation of a report to the Legislature and a request for additional funding based on projected work load and the likelihood of commercial race meets in 2020 or 2021.

DEPARTMENT OF REVENUE

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	185,042,400	194,420,886	204,875,450	213,103,682
Other Funds	125,282,327	129,930,437	123,681,615	126,095,425
Total Funds	**$310,324,727**	**$324,351,323**	**$328,557,065**	**$339,199,107**
Positions	1,083	1,102	1,024	1,057
FTE	1,023.35	963.68	969.22	983.39

Overview

The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering approximately 30 separate tax programs, including personal income and corporate excise taxes, a corporate activities tax, state marijuana tax, 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. DOR is overseen by a director who is a gubernatorial appointment, subject to Senate confirmation, to a four-year term of office.

Revenue Sources and Relationships

Administratively, DOR is funded with a combination of General Fund (63%) and Other Funds (37%). DOR's Other Funds revenue is derived from three primary sources: (a) administrative prorate charges to various Other Fund taxes, fees, assessments, and collection activities; (b) direct charges to program revenues, such as the Corporate Activity Tax, collections, and the Marijuana Tax; and (c) revenue from the recovery of agency cost when administering local government 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. Also, 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.

DOR collects and distributes taxes and fees on behalf of the state, other state agencies, and local governments. For the 2019-21 biennium, DOR is estimated to collect $18.3 billion in personal income taxes, $1.2 billion in corporate excise and income taxes, and $1.6 billion in Corporate Activity Tax. DOR is responsible for collecting a variety of other taxes, including: Other Employee-Employer Taxes, Cigarette Tax, Other Tobacco Products Tax, marijuana tax, severance taxes, amusement taxes, privilege taxes, inheritance taxes, business license and fees, and fines and forfeitures. DOR's budget transfers this revenue to the General Fund, and other state and local governments. DOR also has the statutory responsibility for the Criminal Fines Account that is funded from fines for which the agency does not administer or collect, but which are sent to the agency for distribution.

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. A remote call center was recently added in Fossil, Oregon.

The Core Systems Replacement (CSR) project was the implementation of a new, state-of-the-art revenue management system and has been a needed and important investment for Oregon. Adoption of the new application, a major paradigm shift for the agency, has been challenging, but something the agency has to-date managed successfully. While the CSR project has been concluded, and the core GENTAX application implemented, more work of a critical nature remains to be accomplished before the application can be optimized. The project highlights the challenges between implementing an information technology project and integrating the technology into the day-to-day business operations of an agency.

DOR has successfully completed a number of key legislative initiatives, including: implementation of the recreational marijuana tax program; transportation taxes; Heavy Equipment Rental Tax, and the centralization of all debt collection practices across state government within DOR. There has been some continued interest in restructuring and reforming inequities in the property tax system, which could place additional demands on the agency. An emergent issue is DOR's ability to provide local tax administration services given competing new state tax programs.

Beginning in 2017, the Legislature has sought improvements to the agency's operations, which included nine budget notes as follows: 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. DOR successfully completed reporting on these budget notes; however, the Legislature noted continued interest in monitoring agency performance and outcomes across these primarily administrative functions.

Legislatively Adopted Budget

The budget for the Department of Revenue is $339.2 million total funds, which is a $14.9 million (or 4.6%) increase from the 2017-19 legislatively approved budget. The budget includes $213.1 million General Fund, $126.1 million Other Funds, and 1,057 positions (983.39 FTE).

Continued funding is provided for: The Core [tax] Systems Replacement project (CSR) for post-implementation vendor support ($7.1 million); document scanner project ($847,833); administration of transportation taxes ($1.5 million); and the administration of the Heavy Equipment Rental Tax ($876,361).

New funding was provided for Corporate Activities Tax ($4 million); a fund shift from Other Funds to General Fund was undertaken in the Property Tax Division to resolve long-standing funding issues ($495,238); auditing of marijuana tax filings ($833,216); state and local lodging taxes enforcement ($883,936); and updating the Property Valuation System business case ($210,500). Reductions in the budget include the elimination of 26 vacant positions ($3.2 million) and an expired vendor support contract ($510,000).

Lastly, DOR undertook a number of organizational changes to improve the tracking and transparency of the agency's financial activities, including the consolidation of administrative divisions, the establishment of new divisions (Information Technology Division, Corporate Tax Division, and Collections Division), and other changes.

Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level*	2019-21 Legislatively Adopted*
General Fund	30,290,281	24,331,873	29,902,812	28,515,247
Other Funds	7,559,183	7,528,338	8,064,389	7,592,490
Total Funds	**$37,849,464**	**$31,860,211**	**$37,967,201**	**$36,107,737**
Positions	60	67	72	71
FTE	56.81	62.37	72.00	71.00

*Includes former Executive and General Services Division as well as Information Technology Services and Project Management Office.

Program Description

The Administration Division provides overall Department leadership and supports the work of the rest of the agency by providing services in the following areas: The Director's Office, Finance (including the Accounting, Procurement, Budget, and Payroll sections), Communications, Legislative and Rulemaking Coordination, Facilities, Agency Project Management Office, the Disclosure Office, Human Resources, Internal Audit, and Research.

Beginning with the 2019-21 biennium, the Administrative Services Division is a consolidated division and now includes the former Executive Division and portions of the General Services Division. The Administrative Services Division, however, excludes Information Technology Services, the Processing Center, and portions of the Agency Project Management Office, which were re-organized into a new Information Technology Services Division.

The Communications unit provides 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. 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. In 2018, the Legislature added two economists dedicated to supporting the internal efforts of the agency.

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

A series of budget notes last biennium directed the undertaking of: a comprehensive external audit; a state accounting and budget review; an external Outcome-Based Management assessment; and a review of personnel practices. The findings and reports found deficiencies in areas of financial and budget management, human resource management, and performance management. DOR has made good progress addressing the findings and outcomes from these various external reviews, which remain of continued interest to the Legislature.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $36.1 million is $4.2 million (or 13.3%) more than the 2017-19 legislatively approved budget and includes 71 positions (71.00 FTE). The adopted budget includes the following:

- $219,918 General Fund and $19,124 Other Funds reduction and the abolishment of one permanent full-time vacant position (1.00 FTE).

Property Tax Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	13,260,387	14,856,849	16,486,789	17,608,206
Other Funds	42,544,723	42,785,162	44,587,367	43,752,297
Total Funds	**$55,805,110**	**$57,642,011**	**$61,074,156**	**$61,360,503**
Positions	87	81	81	81
FTE	83.66	77.87	77.93	80.13

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.

The Division 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 digital 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. 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

PTD is supported by General Fund and Other Funds. Since 1989, the Division has received Other Funds from the County Assessment Function Funding Assistance account (CAFFA). 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 2019-21 biennium is projected to total approximately $40 million (spring of 2019). 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. Beginning as early as 2004, the PTD began to experience a revenue shortfall with CAFFA. CAFFA revenues began a general decline after reaching $50 million in revenue during the 2001-03 biennia and are now estimated to be approximately $40 million per biennium. CAFFA funding supplements both state and local General Fund dollars.

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. 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. The Division also receives revenue for the administration of smaller tax programs.

Budget Environment

There are approximately 850 industrial sites and 600 central assessment companies across the state. PTD has administratively "managed" CAFFA and other revenue shortfalls in the Division primarily by holding positions vacant. For example, the PTD has had to disband an entire appraisal section in recent biennia. Other non-valuation activities within the PTD were also curtailed as vacancy savings in subprograms have been needed to fund appraisals and support county assessment activities. Long-standing and systemic funding issues with the CAFFA and the PTD remain to be resolved; however, the Legislature did provide supplemental General Fund support to the program during the 2019-21 budget cycle.

In addition to the revenue shortfall, underlying financial practices of the PTD are a problem. Irregular budget, accounting, and other financial management practices include: (a) the indirect expenditure of funds though an outdated cost allocation system comingles General and Other Funds and degrades the ability to track actual expenditures; (b) defaulting to using General Fund when a source of Other Funds is exhausted; (c) inability to align specific revenue sources with the budget; (d) not expending funds in accordance with the approved budget; and (e) no realignment of budget with planned expenditures. DOR is continuing to work to resolve these issues.

Additionally, there is concern that if a county cannot commit adequate resources to its assessment and taxation program, that county may lose its share of CAFFA 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. Legislation passed during the 2013 session provides additional remedies if a county cannot meet its statutory duties.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $61.4 million is $3.7 million (or 6.5%) more than the 2017-19 legislatively approved budget and includes 81 positions (80.13 FTE). The budget includes:

- $1.2 million General Fund increase, $724,252 Other Funds decrease, and an increase in positions by 2.57 FTE to fund a comprehensive, division-wide reconciliation of position funding.
- $210,500 General Fund and one limited duration Information Systems Specialist 8 position (0.88 FTE) to update the Property Valuation System business case.
- $181,556 General Fund and $90,093 Other Funds reductions and the abolishment of two long-term vacant positions (1.25 FTE).

Personal Tax and Compliance Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	66,483,290	72,951,663	80,053,791	79,740,978
Other Funds	522,405	1,652,483	1,829,203	1,851,154
Total Funds	**$67,005,695**	**$74,604,146**	**$81,882,994**	**$81,592,132**
Positions	427	400	393	391
FTE	421.07	390.02	392.17	390.76

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. The Division also began using financial institution data matching to locate debtor assets. 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 sometimes 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 receivable.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $81.6 million is $7 million (or 9.4%) more than the 2017-19 legislatively approved budget and includes 391 positions (390.76 FTE). The budget includes:
- $408,276 General Fund and an increase in Other Funds expenditure limitation by $8,332 to establish two permanent full-time Tax Auditor 2 positions (1.76 FTE). These positions are to audit the personal income tax returns of licensed marijuana business owners.
- $166,029 General Fund and an increase in Other Funds expenditure limitation by $29,299 to pay fees to banks for the state's bank account data matching function, as well as for a third-party service provider to ensure the bank information is up to date.
- $482,208 General Fund and $9,841 Other Funds reductions and abolishment of four vacant positions (3.17 FTE).

Business Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level*	2019-21 Legislatively Adopted*
General Fund	19,501,791	21,350,670	23,775,091	23,431,030
Other Funds	16,665,815	20,062,584	11,621,735	12,037,892
Total Funds	**$36,167,606**	**$41,413,254**	**$35,396,826**	**$35,468,892**
Positions	217	239	154	155
FTE	211.74	214.22	152.75	153.13

*Includes Multistate Tax Commission, which formally had been a unique budget structure.

Program Description
The Business Division administers state and select local taxes. For state taxes, the Division administers corporate income, excise taxes, transportation taxes, Heavy Equipment Rental Tax (HERT), employer withholding tax, transient lodging, fiduciary, estate, cigarette, and other tobacco product taxes. For participating local governments, and by agreement, the Division administers the transit payroll and self-employment taxes and the local lodging taxes. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts for both state and local taxpayers.

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 is from MTC audits. 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. Account balances in excess of $150,000 are transferred to the General Fund on June 30 of each year.

Revenue Sources and Relationships

The Division's budget is supported by General Fund and Other Funds. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, and assessments. DOR also earns revenue from the recovery of agency cost when administering local government taxes. The MTC is funded from all moneys received by DOR as a result of audits performed by the MTC.

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, incluidng quarterly returns for the recently instituted point-of-sale collection method. The program administers the Tri-Met and Lane County transit and self-employment taxes.

The Legislature enacted HB 3136 (2019) that provides funding to implement a program under which DOR will administer local lodging taxes under agreements with local governments. DOR will contract with a vendor to collect data from online travel companies to enforce state lodging taxes and conduct a pilot project with select local governments to improve local transient lodging tax collections which DOR administers. This builds on work the Department has been undertaking to confidentially share lodging tax data with local governments for purposes of enforcement, as authorized by HB 3180 (2017).

HERT imposes a two percent tax at the point-of-sale on the rental price of most heavy equipment (tax or calendar year basis with quarterly filings). HERT replaces the existing (ad valorem) personal property taxes on such equipment, which was assessed and collected by county assessors. HERT was estimated, using industry data, to replace $18 million of existing personal property taxes, once fully implemented. Of this amount, five percent ($450,000/year or $900,000/biennium) is estimated to be retained by DOR. DOR's administrative costs associated with HERT may not become self-supporting until the 2021-23 biennium or perhaps the 2023-25 biennium. The cash flow of the HERT tax has been of concern to the agency and is not yet fully resolved.

DOR also is a member of the Interagency Compliance Network (ICN), a group of seven state agencies working together to improve compliance with tax and employment laws by sharing information, collaborating on enforcement activities, and conducting educational outreach with the public.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $35.5 million is $6.2 million (or 14.4%) less than the 2017-19 legislatively approved budget and includes 155 positions (153.15 FTE). The budget includes:

- $341,361 Other Funds and authorizes the establishment of three positions (1.50 FTE) to complete the implementation of the Heavy Equipment Rental Tax.
- $309,403 Other Funds and authorizes the establishment of one permanent full-time Tax Auditor 2 position (0.88 FTE) to audit State Lodging Tax returns and increase rates of compliance.
- $158,533 Other Funds and authorizes the establishment of one limited duration position for the implementation of HB 3136 and a pilot program to collect local lodging taxes under agreements with local governments.
- $26,790 Other Funds to complete the rollout of its data matching portal for the state lodging tax.
- $179,406 General Fund and $362,381 Other Funds reductions and the abolishment of four vacant positions (2.75 FTE).

Corporate Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	2,789,362
Other Funds	--	--	--	1
Total Funds	**--**	**--**	**--**	**$2,789,363**
Positions	--	--	--	38
FTE	--	--	--	9.29

Program Description
The Corporate Division was established to administer the Corporate Activity Tax (CAT) established by HB 3427 (2019). The CAT is a tax on the commercial activities of Oregon businesses. The tax is $250 plus 0.57% on taxable commercial activities above $1 million, including a subtraction equal to 35 percent of the greater of input costs or labor costs. The CAT is effective for the tax year beginning January 1, 2020; proceeds from the tax will support investments in education. The primary budget authority for implementing the CAT was provided to the Department of Revenue via HB 5047 (2019). The adopted budget establishes the *Corporate Division* as a separate and unique program for the tracking of budget and expenditures. Objectively identifying DOR CAT expenses will be of importance when determining the amount of net revenue transfers to the Fund for Student Success.

Revenue Sources and Relationships
The CAT is estimated to generate $1.6 billion in revenue for 2019-21, less the cost of a reduction of personal income tax rates of $311 million as well as other changes in HB 3427 which affected the existing General Fund revenue stream for net revenue of $1.2 billion before DOR's administrative costs. For the 2021-23 biennium, gross CAT revenue is estimated to be $2.8 billion, less the cost of a reduction of personal income tax rates of $699 million for net revenue of $2.1 billion before DOR's administrative costs.

DOR's initial start-up costs, through April of 2020, are funded with General Fund prior to the availability of CAT revenue. There is no statutory cap on the level of administrative and enforcement expense DOR may retain. What typically would have been a General Fund revenue source is, by design and legislation, Other Funds. Thereafter, DOR's administrative costs will be funded by Other Funds from CAT revenue, for which DOR will need to request expenditure limitation and possibly additional position authority from the Legislature in 2020. The one-time costs to modify the GENTAX application, which is estimated to be $1.1 million General Fund, is budgeted in *Core Systems Replacement* program.

Budget Environment
The implementation of an entirely new form of taxation will be challenging; however, DOR's successful implementation of the state marijuana tax in 2016 and transportation taxes in 2017 have shown the that the agency is adept at facing such challenges. DOR will implement the CAT primarily on the agency's model of voluntary compliance, with a focus on taxpayer education, outreach, and customer service. Once implemented, DOR will begin filing enforcement and auditing activities in the spring of 2021.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is $2.8 million General Fund, $1 Other Funds, and 38 positions (9.29 FTE). This is a one-time appropriation to implement the measure through April 30, 2020. The costs for May 2020 to June 30, 2021 is estimated to total $9.6 million Other Funds (corporate activity tax) and an additional 31 positions (19.04 FTE). Of note is that an additional $1.2 million General Fund is budgeted for the GENTAX application under the Core System Replacement budget structure.

Information Technology Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	34,604,410	42,266,535	36,051,227	41,524,773
Other Funds	5,934,472	7,874,331	5,138,808	7,036,887
Total Funds	**$40,538,882**	**$50,140,866**	**$41,190,035**	**$48,561,660**
Positions	244	270	227	224
FTE	205.40	192.62	178.62	182.57

Program Description

The Information Technology Services Division (ITSD) supports the technology platforms on which DOR operates, processes incoming paper returns and correspondence, and processes and deposits all payments received by the Department. The Division includes Engineering Services, which manages DOR's network, databases, middleware, systems, and servers; the Service Desk, which provides end-user support for DOR's employees; the Core Systems group, which supports DOR's core system (i.e., operations and maintenance), GENTAX; and Application Services, which develops and supports in-house applications DOR uses to administer its tax portfolio. The Division also includes the Processing Center, which processes all incoming paper returns, payments, and correspondence and deposits all payments. Lastly, the Division's budget also includes Department of Administrative Service charges for Enterprise Technology Services and the State Data Center. The one-time costs to modify the GENTAX application is budgeted in *Core Systems Replacement* program.

Revenue Sources and Relationships

This Division is supported by General Fund and by charges to Other Funds programs for their share of the Department's information technology expense.

Budget Environment

The Division manages 60 business applications, over 1,700 desktop and laptop computers, and the agency's phone system. The Division's developers continue to grow proficient in making changes to the GENTAX application. The Processing Center processes approximately 2.5 million pieces of mail and 1 million paper payments annually.

Post-implementation costs of GENTAX for other than routine operations and maintenance, and new legislative initiatives, are likely to increase. The funding of such costs may become critical to the underlying success of the project; there is legislative concern about why such costs are necessary so soon after the project's implementation and closeout.

The Processing Center Modernization Project is a commercial-off-the-shelf product intended to move DOR from 5% to 100% imaging of all incoming paper documents. The original attempt at this project was unsuccessful. The project, due to its critical importance, was re-initiated and funded by the Legislature in 2017. The re-initiated project is being managed in a more disciplined approach and has sought to address each of the failings of the original project. The project will be completed by 2021.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $48.6 million, $1.6 million less than the 2017-19 legislatively approved budget, and includes 224 positions (182.57 FTE). The adopted budget establishes the ITSD as a separate program. The budget includes:

- $6.5 million General Fund and $564,254 Other Funds expenditure limitation for the ongoing maintenance and support of the Department's GENTAX application. The package funds Level 2 maintenance from the vendor and includes five vendor augmentation staff for 2019 and four augmentation staff for 2020. One-half of the

approved budget was unscheduled pending a report to the Legislature in 2020 on the status of outstanding issues related to the GENTAX implementation.
- $1.5 million Other Funds and 11 limited duration positions (11.00 FTE) to handle paper returns and correspondence related to the statewide transit tax enacted by the Legislature in 2017.
- $780,007 General Fund and $67,826 Other Funds to complete the Processing Center Modernization project.
- $428,400 General Fund and $81,600 Other Funds reductions to eliminate funding for contracts supporting document scanners the agency no longer needs due to the Processing Center Modernization project Phase 1.
- $1.3 million General Fund and $142,836 Other Funds reductions and the abolishment of 14 vacant positions (7.05 FTE).

Marijuana Program

	2015-17 Actual*	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	--	4,659,957	4,093,306	4,455,308
Total Funds	**--**	**$4,659,957**	**$4,093,306**	**$4,455,308**
Positions	**--**	**15**	**15**	16
FTE	**--**	**14.25**	**14.25**	15.76

*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 2017-19 biennium and thus there are no actual expenditures for prior biennia under this budget structure.

Program Description

The Marijuana Program is for the costs of administering the state Marijuana Tax and administering select local government marijuana taxes. The 2015 Legislature passed a series of measures to implement Ballot Measure 91 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 and 2019 sessions, 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. DOR also earns revenue from the recovery of agency costs when administering local government marijuana taxes.

Budget Environment

Overall questions remain about Congressional action and the federal government's enforcement of federal law related to recreational marijuana. The ancillary impact has been to constrain recreational marijuana vendors use of the banking system, resulting in a substantially cash-driven economic model.

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'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. The Legislature invested over $1.2 million in marijuana tax revenues for a DOR headquarters building upgrade for a cash processing center. DOR had originally anticipated 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. DOR then requested, and the Legislature in 2019 approved, tax auditors for the program.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $4.5 million is $204,649 (or 4.4%) less than the 2017-19 legislatively approved budget and includes 16 positions (15.76 FTE). The budget includes:

- $416,608 Other Funds and two permanent full-time Tax Auditor 2 positions (1.76 FTE). The purpose of this package is to audit Marijuana Tax returns of licensed marijuana businesses.
- $43,472 Other Funds reduction and abolishment of one vacant position (0.25 FTE).

Collections Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	190,154	--
Other Funds	--	--	13,195,426	$13,326,479
Total Funds	**--**	**--**	**$13,385,580**	**$13,326,479**
Positions	--	--	73	73
FTE	--	--	73.00	73.00

Program Description
During the development of the 2019-21 budget, DOR formally established a Collections Division framework by transferring the Business Division's Other Agency Accounts (OAA) section and staffing into a new programmatic or division structure. In 2018, the Legislature established one permanent full-time Principal Executive Manager G position to serve as the agency's Collections Administrator. The Division acts as an in-house collection agency for state government, collecting on debts for 180 state departments, boards, and commissions. The Division provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

DOR currently has a decentralized debt collection model that is organized by the type of tax or external collection effort (i.e., private collection firm). The Personal Income Tax and Compliance Division collects personal income tax debt. The Business Division collects business tax debt. While decentralized, DOR does attempt to undertake cross-divisional activities to pursue consistent collection practices.

The proposed consolidation of DOR's collections activities was at the original suggestion of the agency; however, a feasibility study of this proposed change was at the instruction of the Legislature. DOR's feasibility study evaluated five potential organization structures from the current structure to complete outsourcing to private collection firms. The report concludes that the centralization of all of the agency's collection functions into a single division best aligns with the agency's strategic priorities. DOR's proposed plan is to undertake this consolidation over the course of the next two biennia, subject to the review and approval of the Legislature.

DOR collects the debts and transfers the amount collected less a fee for its work. SB 1067 (2017) expanded the work of the section by requiring Executive Branch agencies send their liquidated and delinquent debt to OAA sooner. OAA now manages all of the debt assigned to private collection firms. One of the more notable changes in practice is that DOR will begin to manage private collection firm accounts of various agencies rather than those agencies managing the private collection firm process themselves. Previously, legal authority to send debt to private collections resided with the state agency responsible for the collection of the debt. The centralization of debt collection activities is an important efficiency measure with the anticipated outcome of timelier and improved statewide debt recovery. Centralization provides for the consolidation of debtor accounts, increased use of data analytics, consistent application of specialized collection practices, standardization of debtor customer service, and cost savings due to economies of scale.

Revenue Sources and Relationships
The Collections Division recovers its costs through fees charged against the debt it collects. Direct revenues are received from collection costs recovered through fees charged to the client agencies.

Budget Environment
Of the 98 executive branch agencies, 55 have debt eligible for collections with DOR, with the remaining 43 having no debt collectable by DOR. The Oregon Judicial Department and semi-independent agencies are not required to submit debt to DOR for collections. Of note is that the Department of Administrative Services - Statewide Accounts Receivable Management has granted no administrative exception to any executive branch agency from the centralized collections provisions of SB 1067. Agencies will transfer an estimated $12.7 million in new debt to DOR annually under SB 1067, of which DOR estimates $634,100 in predominantly Other Funds will be collected, under an assumed collection rate of five percent.

DOR collection rates for the past nine fiscal years (2008 to 2018) have averaged 17.45% for tax debt (outside the Collections Division) and 6.85% for non-tax debt. 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. Private collection firm (PCF) collection rates for this same period averaged 2.1 percent for tax debt and 1.38 percent for non-tax debt, albeit with less collection tools than DOR and for debt that has become more challenging to collect. The maturing of DOR's collection function, coupled with the deployment of information technology, is leading to a more sophisticated understanding of the use of PCFs, and their collection rates and cost effectiveness as compared to DOR's in-house collection efforts and costs.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is $13.3 million and includes 73 positions (73.00 FTE). The adopted budget establishes the Collections Division as a separate program. The budget includes:
- $190,154 fund shift from General Fund to Other Funds for one position to match the revenue source that supports the program's work.

Non-Profit Housing Program

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	4,508,575	3,226,364	3,348,966	3,348,966
Total Funds	**$4,508,575**	**$3,226,364**	**$3,348,966**	**$3,348,966**

Program Description
This property tax relief program includes the Nonprofit Housing program (NPH), which is a state-funded property tax exemption. Under the NPH, 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 each year.

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. 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
For the 2017-18 tax year, there were approximately 40 NPH-eligible dwellings in 14 counties for which DOR made an average payment to the counties of $37,500 per dwelling. 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.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $3.4 million is $122,602 (or 3.8%) more than the 2017-19 legislatively approved budget and 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.

Senior Citizens' and Disabled Citizens' Property Tax Deferral

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	28,421,537	32,584,756	33,913,551	33,764,117
Total Funds	**$28,369,719**	**$32,584,756**	**$33,913,551**	**$33,764,117**
Positions	14	9	9	8
FTE	10.75	8.50	8.50	7.75

*2013-15 actual expenditures are 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 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 sometimes allocated these surpluses to other general governmental purposes over the last decade.

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 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 stabilized and DOR was able to repay the $19 million loan on time. The current balance in the Senior Property Deferral Account is $50.8 million as of the first quarter of the 2020 fiscal year, which is the highest reported balance since 1977.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $33.8 million is $1.2 million (or 3.6%) more than the 2017-19 legislatively approved budget and includes eight positions (7.75 FTE). The budget includes:

- $140,504 Other Funds reduction and abolishment of one vacant position (0.75 FTE).

Core System(s) Replacement

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	$4,661,835	1,060,000	--	1,165,000
Other Funds	23,212,636	$11,233,110	--	951,000
Total Funds	**$27,874,471**	**$12,293,110**	**--**	**$2,116,000**
Positions	33	32	--	--
FTE	33.00	8.00	--	--

Program Description

The Core System(s) Replacement (CSR) program is comprised of two information technology projects: (1) an integrated state-wide tax, revenue collection, and management application (“Core Systems Replacement project”) and (b) a computer-assisted mass appraisal software system (“Property Valuation System”). 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 DOR must adopt many GENTAX business processes resulting in the reengineering of the agency’s business procedures in order to avoid customization. The GENTAX system, however, is being highly configured to meet DOR requirements.

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.

Revenue Sources and Relationships

The program is funded with a combination of General and Other Funds. General Fund funds the development of the Corporate Activities Tax. Other Funds come from the Heavy Equipment Rental Tax and state and local lodging taxes. In prior biennia, CSR development costs were funded with Article XI-Q bonds and General Fund was used to pay for costs ineligible for Article XI-Q bond financing, such as the Department of Administrative Services’ State Data Center charges and CSR contracted maintenance costs.

Budget Environment
While the core functionality of the project has been mostly completed and is operational, more work is left to be done. Post-implementation costs, for other than routine operations and maintenance and new legislative initiatives, are likely to increase. The funding of such costs may become critical to the underlying success of the project. The Legislature continues to question why CSR was not fully operationalized after DOR announced that the project had been completed. Other recent GENTAX investments include application updates for the following taxes: corporate activities tax, state marijuana tax, transportation taxes, Heavy Equipment Rental Tax, and State and local lodging taxes.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $2.1 million is $10.2 million (or 82.8%) less than the 2017-19 legislatively approved budget. The reduction is due to the normal phase-out of the original CSR project funding. There are no positions budgeted under this program. The budget includes:
- $1.2 million General Fund for the implementation of the Corporate Activities Tax.
- $535,000 Other Funds for the implementation of the Heavy Equipment Rental Tax.
- $416,000 Other Funds for the implementation of HB 3136, the administration of local transient lodging taxes.

Capital Debt Service and Related Costs

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	11,783,649	14,376,932	15,066,620	14,980,120
Other Funds	55,516	1,254,228	1,237,830	1,327,830
Total Funds	**$11,839,165**	**$15,631,160**	**$16,304,450**	**$16,307,950**

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 and Other Funds. Other Funds revenue is derived from administrative charges to various Other Funds taxes, fees, and assessments.

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. With the exception of cash financed projects, Article XI-Q bonding for the project has been completed.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget of $16.3 million is $676,790 (or 4.3%) more than the 2017-19 legislatively approved budget. DOR made no request for additional Article XI-Q bond authority and therefore the only change in Debt Service was the normal costs of previously authorized bonds. There are no positions budgeted under this program.

Revenue Clearing House

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	--	--
Other Funds	--	--	--	--
Total Funds	**--**	**--**	**--**	**--**

Program Description

The Revenue Clearing House Division is newly created revenue-only structure to receive and distribute pass-through revenues by DOR on behalf of the state, other state agencies, and local governments. Previously, such revenue tracking occurred under the General Services Division.

Revenue Sources and Relationships

Revenue is derived from various taxes, fees, assessments, and collections.

Budget Environment

The Revenue Clearing House Division serves a key function in the tracking, budgeting, and distribution of revenues. DOR undertook an extensive and long-overdue effort to detail each revenue stream received by the agency by identifying the origin of the revenue, the revenue's statutory-basis and distribution requirements, allowable administrative costs, as well as updated revenue forecast information. The accuracy of this information is important for recipient agencies. This information also helps DOR better understand internal cash flows and working capital requirements.

Legislatively Adopted Budget

Revenue Clearing House Division is a non-budgeted structure or, in other words, has no associated appropriation or expenditure limitation or position authority. DOR costs to administer the Division are budgeted under various operating divisions.

Analyst: Rocco

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,285,700	14,357,322	11,261,921	14,158,129
Other Funds	51,509,990	58,170,519	62,088,686	63,888,057
Federal Funds	1,845,372	8,132,619	4,960,337	5,387,041
Total Funds	**$63,641,062**	**$80,660,460**	**$78,310,944**	**$83,433,227**
Positions	210	215	212	224
FTE	208.46	214.03	211.72	223.50

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 immediate staff. The Division includes 66 positions and is the second largest division after the Audits Division.

Revenue Sources and Relationships

The $14.2 million of General Fund in the 2019-21 biennium legislatively adopted budget finances 17% of total agency expenditures, down slightly from 18% in the 2017-19 biennium. The funding split for the agency was modified in the 2013-15 budget when General Fund support for the Archives Division was replaced with revenues from a new Other Funds assessment on state agencies. General Fund now primarily supports the Elections Division and the Administrative Services Division. The General Fund supports 62% of the Elections Division budget ($10.7 million General Fund), and 15.2% of central administrative expenses in the Administrative Services Division ($3.5 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 replaced General Fund support with a new state government service charge assessed to state agencies.

As part of the 2019-21 adopted budget, statewide adjustments were made to all state agency budgets due to changes made to assessments and rates by the Department of Administrative Services, Attorney General, Secretary of State, and others. Statewide these reductions totaled $37.1 million total funds; changes made to the Secretary of State assessments on state agencies totaled $1.3 million total funds (including $561,000 in General Fund reductions).

Other Funds revenues are received from various sources, including:

- Assessments to state agencies, based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions), are the primary funding source for the Audits Division. Agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation) are billed for actual audit costs rather than an assessment. Audits Division assessments and billings are projected to total $28.1 million in 2019-21 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 unit; it houses 72 full-time positions (approximately 32% 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. Charges for services will generate $11.3 million Other Funds in the 2019-21 biennium. 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. 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 $91.6 million in the 2019-21 biennium. The legislatively adopted budget transfers $73.3 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 and provide $9.7 million of Other Funds for the Administrative Services Division (approximately 43% of the Administrative Services Division total budget). The Corporation Division houses 39 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 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, generates revenues for the Archives Division. Sales income is projected to total approximately $135,000 in the 2019-21 biennium.

- County payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2019-21 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 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 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 no longer sufficient to support current service level Federal Funds expenditures.

The agency is also budgeted to receive Federal Funds revenues from federal grants. Due to declining receipt of these federal dollars, the 2019-21 biennium budget only includes $20,000 of Federal Funds in the Archives Division from these grants, down from $41,559 in the 2017-19 legislatively approved budget.

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 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 the costs. Costs associated with the production and distribution of voters' pamphlets also vary depending on the number of candidates, measures, and measure arguments filed. In the 2015 session, the Legislature passed HB 2177, known as the Oregon Motor Voter (OMV) law, which directs the Secretary to use Oregon Department of Transportation electronic records to add eligible voters to voter registration rolls. The Legislature committed to appropriating General Fund for payments to counties to address costs associated with the increase in the number of registered voters. The 2019-21 budget includes $879,248 General Fund for OMV, representing the third biennium of a four-phase implementation schedule.

During the 2019 session, the Legislature passed SB 861 which requires pre-paid postage for ballots on all elections held on or after January 1, 2020. To cover costs for this new election law, the Legislature appropriated $1.7 million General Fund to the Secretary of State and established a special purpose appropriation for the Emergency Board in the amount of $1.15 million. The Emergency Board appropriation was made since there is some uncertainty in how many ballots will be returned using pre-paid postage versus continued use of drop-off.

Ongoing HAVA requirements continue to influence the Secretary of State's budget for the foreseeable future. HAVA was passed in October 2002 and contains 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. Congress approved additional HAVA funds in 2018 for improving election administration and enhancing election security. Oregon was eligible for $5.4 million and the Emergency Board authorized the agency to spend $3.3 million of the new HAVA funds for the 2017-19 biennium at its May 2018 meeting. Although the agency still holds approximately $7 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 $83.4 million is a $2.8 million (or 3.4%) increase from the 2017-19 legislatively approved budget and is 6.5% above the current service level. The budget includes 224 positions (223.50 FTE), a 4.2% increase over the 2017-19 biennium level. General Fund support of $14.2 million represents a 1.4% decrease over the prior biennium.

The budget includes six agency-specific adjustments affecting General Fund support levels:

- $1,668,783 General Fund to pay postage costs for ballots returned by mail in all Oregon elections during the biennium held on or after January 1, 2020; this funding is associated with the passage of SB 861 and includes a special purpose appropriation to the Emergency Board of $1,146,094 in case costs are higher than initially projected due to enhanced ballot return by mail.
- $879,248 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; this expenditure represents the third of a four-biennium phase-in.
- $336,696 General Fund for the establishment of two new limited duration Compliance Specialist 2 positions (1.75 FTE) to manually accept, review, and maintain lists of campaign finance filings, answer questions, conduct investigations, oversee civil penalties and case hearings, and fulfill public records requests associated with campaign finance changes in HB 2983.
- $197,841 General Fund for the establishment of a new Operations and Policy Analyst 2 position to work with counties on the Oregon Centralized Voter Registration system and organize enhancement requests by operating a call center help desk.
- A $75,000 General Fund reduction in services and supplies by eliminating the Oregon Motor Voter return letters and replacing them with a postcard that does not have a return envelope option.
- $20,000 General Fund to enhance the Secretary's ability to travel both in-state and out-of-state on official business.

Principal Other Funds adjustments in the Secretary of State budget include:

- $727,933 Other Funds to add five Public Service Representative 4 positions for the Corporation Division call center and for the Office of Small Business Assistance.
- $502,044 Other Funds to continue a limited duration Training and Development Specialist 2 position as permanent and to add a new Principal Executive Manager C position as a Service Desk Manager for the Network Operations Security Center.
- $500,000 Other Funds for phase three of the Archives Building compact shelving project.
- $500,000 Other Funds for increased merchant fees due to the growing use of credit cards to pay for report filing and business registration fees.
- $271,528 Other Funds to finalize the migration of business information systems to the Cloud.
- $80,700 Other Funds for maintenance of new security systems put into place during the 2017-19 biennium.
- $50,000 Other Funds to allow the translation of 70 business forms used by the Secretary of State into five specified languages as required under HB 2998.

A $465,550 Federal Funds expenditure limitation increase was also included in the adopted budget to continue two IT security positions approved at the May 2018 meeting of the Emergency Board for voting system security as part of the federal Help America Vote Act.

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 was included in the 2017-19 biennium budget, nonetheless, Corporate Division transfers to the General Fund are projected to total $73.5 million in 2017-19, up from a projected $64.7 million at the close of the 2017 session. The current revenue forecast for 2019-21 includes a projected $70.8 million transfer to the General Fund from

Secretary of State fees, but the adopted budget assumes a total transfer of $73.3 million. The difference is expected to be transferred on a monthly basis and will eventually be included in the Office of Economic Analysis official revenue forecast.

Administrative Services Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,833,979	3,123,091	3,456,717	3,457,202
Other Funds	16,752,217	17,724,878	18,768,645	19,273,295
Total Funds	**$18,586,196**	**$20,847,969**	**$22,225,362**	**$22,730,497**
Positions	62	65	64	66
FTE	61.37	64.15	63.97	66.00

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 66 positions funded in the 2019-21 legislatively adopted budget are apportioned to the four areas as follows: Executive Office – 7 positions; Business Services Division – 15 positions; Information Systems Division – 40 positions; Human Resources Division – 4 positions.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is a $1,882,528 (or 9%) increase over the prior biennium but is only 2.3% above the current service level (CSL). General Fund is increased by 10.7% over the prior biennium but is basically unchanged from the current service level. The magnitude of the increase is affected by the reversal of a one-time fund shift included in the prior biennium budget, and that does not therefore increase total expenditures. Two full-time positions were added, including the continuation of one position that was established as limited duration in the 2017-19 budget but is now continued as permanent, plus the addition of one new full-time Service Desk Manager for the Network Operations Security Center in the Information Systems Division.

Enhancements and reductions to the Administrative Services Division budget include:

- $7,056 General Fund and $52,681 Other Funds to reclass 10 positions in the Executive Office, including the Chief of Staff, Procurement Officer, Budget Officer, and seven Information Systems positions; reclasses are related to pay equity and to align positions with budgeted responsibilities.
- $502,044 Other Funds to make a Training and Development Specialist 2 position (1.00 FTE) in Human Resources permanent from limited duration status and to establish a new Principal Executive Manager C (1.00 FTE) in Information Systems to act as a Service Desk Manager for the Network Operations Security Center.
- $20,000 General Fund to increase funding available for travel for the Secretary.

- $271,528 Other Funds to finalize the migration of business information systems to the Cloud, a project that was initiated in the 2017-19 biennium.
- $80,700 Other Funds for maintenance of new security systems put into place in the 2017-19 biennium.
- $250,000 Other Funds reduction to eliminate expenditure limitation for one-time IT security project costs in 2017-19 that were not phased-out during 2019-21 budget development.
- Added 0.03 FTE to an existing Human Resource Analyst 3 position to make it a full-time position.
- $26,571 General Fund and $152,303 Other Funds reductions for the Administrative Services Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Elections Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	8,451,721	11,234,231	7,805,204	10,700,927
Other Funds	616,823	1,136,554	1,183,925	1,183,903
Federal Funds	1,845,372	8,091,060	4,917,115	5,367,041
Total Funds	**$10,913,916**	**$20,461,845**	**$13,906,244**	**$17,251,871**
Positions	21	20	20	25
FTE	20.50	20.00	20.00	24.75

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 2019-21 legislatively adopted budget for the Elections Division is a 15.7% decrease from the prior biennium level but is 24.1% above 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 one-time appropriations for a special election in January 2018.

General Fund in the budget is reduced 4.7% from the prior biennium level but is 37.1% above the current service level. Enhancements and reductions to the Elections Division budget include:
- $197,841 General Fund to establish an Operations and Policy Analyst 2 position (1.00 FTE) to work with counties on the Oregon Centralized Voter Registration System and organize enhancement requests by operating a call center help desk.
- $879,248 General Fund to continue payments to counties for the Oregon Motor Voter Law to help cover costs for an increase in voter registrations and additional costs for ballots and elections; this appropriation represents the third of four two-year payments to cover an eight- year Driver and Motor Vehicle Services (DMV) license and registration renewal cycle.
- $1,668,783 General Fund to pay postage costs for ballots returned by mail in all Oregon elections during the biennium held on or after January 1, 2020; this funding was provided in conjunction with the passage of SB

861 and also includes an appropriation to the Emergency Board for the Secretary of State of another $1,146,094 General Fund in case costs are higher than initially projected due to enhanced ballot return by mail rather than by drop-off.

- $336,696 General Fund to establish two new limited duration Compliance Specialist 2 positions (1.75 FTE) to manually accept, review, and maintain lists of campaign finance filings, answer questions, conduct investigations, oversee civil penalties and case hearings, and fulfill public records requests associated with campaign finance changes in HB 2983 (2019).
- $465,550 Federal Funds to continue two IT security positions (2.00 FTE) approved at the May 2018 Emergency Board meeting using HAVA funds provided in 2018 to ensure voting system security.
- $75,000 General Fund reduction to eliminate the Oregon Motor Voter return letters with a pre-paid postage envelope and replace the letter with a post card that does not have a return envelope option.
- $111,845 General Fund and $6,624 Federal Funds reductions for the Elections Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Audits Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	17,739,595	21,528,056	23,241,406	23,104,941
Total Funds	**$17,739,595**	**$21,528,056**	**$23,241,406**	**23,104,941**
Positions	72	72	72	72
FTE	71.84	72.00	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 $28.1 million in the 2019-21 biennium, a 4.9% increase over the prior biennium level. The Division will transfer $6.1 million of these revenues to the Administrative Services Division to support central administrative functions and retain $25.7 million (including a 2019-21 beginning balance) to operate the Audits Division.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Audits Division is a 7.3% increase over the prior biennium level but is 0.6% below the current service level. Enhancements and reductions to the Audits Division budget include:

- $58,604 Other Funds to reclass four entry level State Auditor positions to the State Auditor 2 level to align the budget with actual hiring practices.
- $195,069 Other Funds reduction for the Audits Division portion of standard statewide adjustments made in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

Archives Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	6,867,120	7,592,564	8,111,645	8,361,423
Federal Funds		41,559	43,222	20,000
Total Funds	**$6,867,120**	**$7,634,123**	**$7,575,636**	**$8,381,423**
Positions	22	22	22	22
FTE	21.75	22.00	21.75	21.75

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. The Division also publishes the Oregon Blue Book and since 2017 has managed the Oregon Kid Governor Program, a civics education tool available to all Oregon fifth graders.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget for the Archives Division is a 9.8% increase from the prior biennium level and is 2.8% above the current service level. The budget continues the elimination of General Fund support first 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 as Other Funds. The assessment is expected to generate $11.3 million Other Funds in the 2019-21 biennium. In addition, the division had a beginning balance of $1.8 million Other Funds that included $500,000 in one-time assessments initially extended to finance new shelving in the Archives Building. The third phase of the shelving project was not approved in 2017-19, but assessments were not reduced. The Archives Division therefore collected and held the $500,000 it received. The division's budget request asked for expenditure limitation to spend this previously collected $500,000 for the shelving project and to collect another additional $750,000 for the final phase of the project. The expenditure limitation for the previously collected funds was approved, but the new assessment was denied and was part of the Secretary of State assessment reduction applied to the statewide budget.

Enhancements and reductions to the Archives Division budget include:

- $4,148 Other Funds to reclass four positions including an Electronic Design Specialist 2 to an Operations and Policy Analyst 1, two Electronic Design Specialist 1 positions to the Public Service Representative 4 classification, and one Program Analyst 2 to a Records Management Analyst 3.
- $500,000 Other Funds for phase three of the compact shelving project; a request to collect an additional $750,000 Other Funds from agencies for phase four (the final phase) of the project was not approved.
- $23,222 Federal Funds reduction to true up the expenditure limitation for the division and to recognize lower federal fund grant receipts.
- 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.
- $254,370 Other Funds reduction, for the Archives Division portion of standard statewide adjustments in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

- A request for $1.2 million General Fund to provide a backup generator to the environmentally and climate controlled areas of the Archives Building was not approved, but Enterprise Asset Management of the Department of Administrative Services (who owns the building) was directed to work with the Secretary of State to determine if the project is feasible and to include it on a list of projects to be funded by the Department through uniform rent.

Corporation Division

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	9,534,235	10,188,467	10,783,065	11,964,495
Total Funds	**$9,534,235**	**$10,188,467**	**$10,783,065**	**$11,964,495**
Positions	33	36	34	39
FTE	33.00	35.88	34.00	39.00

Program Description

The Corporation Division is responsible for four major programs: 1) Business Registry – the filing of business names; 2) Uniform Commercial Code – the filing of secured transactions; 3) Notary Public – commissioning and regulating notaries; and 4) the Office of Small Business Assistance – added in the 2013 legislative session, this office works with small businesses as an ombudsman to resolve issues with state agencies.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Corporation Division is a 17.4% increase over the prior biennium level and represents an 11% increase over the current service level. The budget establishes five new positions from the current service level, a 14.7% increase in FTE.

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 retained by the agency and approximately 75% are transferred to the General Fund. Revenues from these sources are projected to total $91.6 million in the 2019-21 biennium. The legislatively adopted budget transfers $73.3 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 $9.7 million Other Funds to the Administrative Services Division (funding approximately 43% of the Administrative Services Division total budget), plus the Corporation Division's own $12 million Other Funds operating budget.

The budget for the Division includes the following enhancements and reductions:

- $33,065 Other Funds to reclass three positions including a Public Services Representative 4 to a Principal Executive Manager (PEM) B, a Public Services Representative 4 to a Program Analyst 3, and a Program Analyst 4 to a PEM D.
- $727,933 Other Funds to add five Public Service Representative 4 positions (5.00 FTE); four of these positions eliminate the need for double-filling existing positions and true up the need for staffing in the division's call center and one position is added to assist the Office of Small Business Assistance and to serve as a backup for the Corporation Division call center.
- $500,000 Other Funds to cover the increase in merchant fees due to additional business registrations, reporting filing, and the payment of fees online using credit cards which increase the fees on credit card purchases.

- $50,000 Other Funds to allow the translation of 70 business forms used by the Secretary of State into five specified languages (Spanish, Chinese, Vietnamese, Russian, and Korean) by July 1, 2021 as required by HB 2998 (2019).
- $129,568 Other Funds reduction for the Corporation Division portion of standard statewide adjustments in the final legislatively adopted budget from reductions in the assessments and charges for certain agencies, including the Department of Administrative Services, the Department of Justice, the Public Employees Retirement System, and the Secretary of State.

STATE TREASURER

Analyst: Borden

Agency Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,904,631	5,361,270	1,463,607	--
Other Funds	54,259,279	82,003,898	88,422,190	92,726,560
Total Funds	**$56,163,910**	**$87,365,168**	**$89,885,797**	**$92,726,560**
Positions	123	160	162	166
FTE	117.85	150.09	161.00	164.47

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) and the Oregon Retirement Savings Board.

The State Treasurer 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, chairs the State Debt Policy Advisory Commission, and chairs the Oregon Retirement Savings Board, among other duties and responsibilities. State Treasury, the agency, is overseen by the State Treasurer, who is assisted by a Chief of Staff and a Deputy State Treasurer. The Deputy State Treasurer provides operational leadership to Treasury.

Although considered an Executive Branch agency, the State Treasurer, 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.

Revenue Sources and Relationships

OST is funded with Other Funds, which total $119.7 million. The agency's 2019-21 beginning cash balance is $11.3 million and its estimated ending cash balance is equal to $11.4 million, which equates to over eight months of operating reserves. OST has broad authority to set its fees within statutory limits and most OST programs are supported by their own fees and charges. 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, account fees, 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.

Up until the 2019-21 biennium, General Fund loans supported the development and implementation of the Oregon Retirement Savings Board and the Achieving a Better Life Experience Act (ABLE) program, an Oregon 529 Savings plan. These programs are now self-supporting with application, account, or administrative fees although repayment of the General Fund has not yet occurred. OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, if not sooner.

Revenues from each operating program are used to fund shared services and administrative programs that provide direct and indirect services necessary for the operational programs to function via a cost allocation process utilizing fund transfers.

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, the Oregon 529 Savings Network, and the Oregon Retirement Savings Board or "OregonSaves" plan. The agency processes in excess of 37 million financial transactions biennially, including deposits, electronic fund transfers, and check issuances.

OST manages, under the direction of the OIC, approximately $102 billion in short, intermediate, and long-term assets, the largest of which is the approximately $70 billion Oregon Public Employees Retirement Fund (OPERF). OST-generated returns on these funds have broad budgetary implications for state and local governments as such investment returns play an important role in funding operational activities.

SB 454 (2019) transfers administration of the Uniform Disposition of Unclaimed Property Act, unclaimed estates, and escheated property and funds from the Department of State Lands to the State Treasury with an operative date of July 1, 2021. The budgetary and financial details of the transfer have not yet been worked out. For the 2021-23 biennium, the two affected agencies will need to develop budget proposals for consideration by the Legislature in 2021.

The Legislature in 2019 enacted SB 1049, which requires a public body or intergovernmental entity, prior to issuing pension obligation bonds, to obtain a statistically based assessment from an independent economic or financial consulting firm. The public body or intergovernmental agency will be required to submit the assessment to the State Treasurer who will then provide an annual report to the State Debt Policy Advisory Commission.

A budget note was included to improve the public transparency and understanding of the State Treasury budget by establishing an appropriation for each major division or program activity. Such a structure is to be in place for the 2021-23 biennium. State Treasury is to report to the Legislature in 2020 on how the agency has overcome any potential barriers related to implementing this change.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget is $92.7 million Other Funds which is a $5.4 million (or 6.1%) increase from the 2017-19 legislatively approved budget. The adopted budget includes 166 positions and 164.47 FTE.

The Legislature continued, for the third consecutive biennium, an investment in the level of resources dedicated to the Investment Program ($1.5 million). Supplemental funding was also approved for information security ($780,691). The Legislature approved the consolidation and reorganization of the 529 College Savings and Achieving-a-Better-Life (ABLE) programs as well as other related changes to the Oregon Retirement Savings Board (ORSB), which included moving the ABLE and ORSB from General Fund to entirely Other Funds support ($1.5 million). Reductions in the budget include: the elimination of one long-term vacant position ($212,877).

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

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
Other Funds	49,375,489	75,626,071	79,702,832	81,042,493
Total Funds	**$49,375,489**	**$75,626,071**	**$79,702,832**	**$81,042,493**
Positions	116	151	153	157
FTE	112.60	141.25	152.00	155.47

Program Description

Treasury Services is a warehouse for the following programs and activities: Investment Program; Finance Program; Public Funds Collateralization Program; Debt Management Program; Public Infrastructure Commission; State Treasurer Policy Staff; Shared (Administrative) Services; and the Information Technology Program. The agency has staff across three locations: the State Capitol; the Labor and Industries Building on the Capitol Mall; and at a facility in Tigard, Oregon.

Investment Program

The Investment Program manages short, intermediate, and long-term investments of state and local governments, including: the Oregon Public Employees Retirement Fund (OPERF); the State Accident Insurance Fund; the Oregon Short Term Fund; the Oregon Local Government Intermediate Fund; the Common School Fund; and several state agency fixed income funds. The Program invests and reinvests moneys, subject to statutory standards of prudence, judgement, and care, other statutory standards, and Oregon Investment Council policy guidelines. OST does not investment funds for: Oregon Savings Growth Plan; Oregon College Savings plan(s); Achieving a Better Life Experience Act; or the Oregon Retirement Savings Board program; however, the program, in consultation with OIC, does oversee investment contract selections.

The program is organized into the following major sections: Chief Investment Officer; Director of Investment Operations; Chief Compliance Officer; and Incentive Compensation. Investment Officers are organized around the types of investments, for example, public equities, private equities, fixed income, real estate, alternative, and opportunity investments. Of note is that OPERF is 92% externally managed and 91% actively managed.

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. In other words, a portion of an Investment Officer's compensation is deferred, not considered earned and not paid, until certain fund investment performance metrics are met. Incentive compensation is determined based on calendar year performance relative to peers. The budgeted amount for incentive compensation is approximately $3.5 million plus Other Payroll Expenses.

Revenue Sources and Relationships

The Investment Program 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 fees are calculated on a sliding scale depending upon the level of assets under management. Revenues are expected to total $56.9 million for the biennium.

OST invests excess cash for durations of less than one year in the Oregon Short Term Fund (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 an administration and portfolio management fee. 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 OPERF are also invested in the OSTF.

The Oregon Intermediate Term Pool (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. The value of the OITP was $122.9 million as of June 30, 2019. The Pool began on June 30, 2010. OST may deduct monthly 0.435 of a basis point of the most recent market value of assets under management directly from the OITP for an administration and portfolio management fee.

Budget Environment

The Investment Program, operating under the direction of the State Treasurer as the state's investment officer, and with policy set by the OIC, manages a portfolio of over $102 billion as of July 31, 2018. Institutional investment standards, industry best practices, as well as broad and deliberate diversification efforts have historically produced good results. OPERF's 3, 5, and 10 year performance record ranks at the top of similar-sized public investment funds. The strategy employed by the Investment Program is designed to produce positive returns in bull market conditions, while mitigating portfolio volatility and protecting against sharp or protracted downturns.

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 Program. The studies identified significant and systemic deficiencies within the Investment Program. 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, for three consecutive biennia, has significantly increased the staffing and resources devoted to the investment program in order to address these deficiencies.

After the close of the legislative session in 2017, OIC voted to move the Individual Account Program (IAP), a Public Employee Retirement System (PERS) benefit, to a target-date fund solution beginning January 2, 2018. This is an age-based approach that moves a member's IAP assets into an increasingly conservative investment portfolio, which may impact member earnings and ultimately their retirement benefit. Since inception on January 1, 2004, the IAP had been invested no differently than other assets in the OPERF. The OIC change initiated a glidepath to begin moving IAP assets into a newly established target-date fund structure at initial implementation. OIC's target-date solution is a mandatory change for IAP members. The original target-date solution provided for no member choice to make individual investment decisions. The OIC decision appears to have been made in absence of any IAP member involvement or input; however, State Treasury notes that there were discussions with various union officers, PERS agency staff, and the Governor's Office. The primary impact of this decision is to reduce the account-based or defined contribution benefit of IAP members by lowering the potential earnings on member contributions as the investment allocation becomes more conservative. Subsequent legislation, in both 2018 and 2019, provides IAP members with a choice of investment options; however, the operative date has been pushed out to January 1, 2021.

Oregon Investment Council

The Oregon Investment Council (OIC) is established by statute and comprised of five voting members. Four members are appointed by the Governor and confirmed by the Senate and must have experience in the field of investment or finance. The State Treasurer serves as the fifth member. The executive director of PERS serves as an ex-offico non-voting member.

Statute defines the statutory funds over which OIC has the responsibility to make investment decisions. OIC is a policymaking body that sets investment policy, asset allocation targets, benchmark return targets, and makes portfolio decisions on investment purchases and sales. OIC, however, may delegate to the State Treasurer some limited investment decision-making. OIC also selects external investment managers and consultants. OIC has responsibility for risk management. OIC also exercises the fiduciary responsibility of shareholders by voting for corporate board members.

OIC is not permanently staffed. Instead, OIC receives advice from outside investment and management consultants, but relies primarily upon the statutory Chief Investment Officer (i.e., State Treasurer) and the State Treasury Investment Program for staffing, including for investment analysis and recommendations.

Revenue Sources and Relationships

OIC is not subject to legislative budgetary control (i.e., expenditure limitation) and, by statute, has the unusual authority to charge any expense against gross investment earnings. These costs include investment fees, commissions, and other expenses for private third-party investment managers and brokerage commissions, charged against OIC-supervised investment funds. This type of carte blanc “expenditure authority” is unique in state government and demonstrates the unrestricted autonomy in which OIC is allowed to operate. Additionally, since OIC is not designated as a state agency, nor subject to expenditure limitation, there is no requirement that OIC appear before the Legislature. The PERS Comprehensive Annual Financial Report for fiscal year 2017 shows that investment expenses for OPERF have increased to $704.2 million, or by $151 million (+27%) above the $533.7 million in investment costs for 2016 and have attained their highest level to-date.

There are other Investment Program costs borne by OIC that occur as revenue transfers rather than as expenses and therefore are not subject to legislative expenditure limitation. OIC expends trust fund earnings to 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. Traditionally, such operational expenses are the financial responsibly of a state agency subject to budgetary control, rather than a board, commission, or council.

Budget Environment

There is perhaps no other actuarial assumption more financially significant to Oregon’s public pension system than the assumed earnings rate, which is currently 7.2%. The assumed earnings rate is generally defined as the rate of investment return that the PERS Board expects the Public Employees Retirement Fund to earn over the long-term, which is defined as 20-years. Technically, the assumed earnings rate is comprised of a series of assumptions about current and projected interest rates and rates of inflation; and projected market rates of returns for various asset classes. Financial modeling does not take into consideration past returns on the PERS portfolio.

The National Association of State Retirement Administrators median assumed rate of return across public pension plans is 7.25%. The PERS actuary calculated a geometric median return of 6.87% over a 20-year period and at the 50th percentile return and then an arithmetic mean return of 7.55%. OIC received a consultant’s report that calculated a geometric median return over 10 years at 7.32%, which is higher than the current assumed rate. The OPERF actual 20-year return between 1999-2018 is 7.72%, including the 2008 financial crisis.

Finance Program

The State Treasurer is the sole banking and cash management officer for the state. The Finance Program provides centralized cash management services to state agencies and other entities. These services include deposits, electronic funds transfers, merchant card acceptance, prepaid card issuance, and check and warrant issuance. The Finance Program also establishes procedures for the handling of moneys under state agency control and reviews the effectiveness of agencies’ cash management practices. The Program makes loans to state agencies and the General Fund to manage temporary cash flow insufficiencies. The Program also coordinates with the Debt Management Program to issue bonds, commonly referred to as Tax Anticipation Notes, to finance current expenses of the state when a cash flow deficit is forecasted. The Finance Program provides administrative and operational support for the Oregon Short Term Fund (OSTF), which includes state agency funds and the Local Government Investment Pool (LGIP), as a short and intermediate-term cash investment vehicles.

Revenue Sources and Relationships
Banking charges are set to provide sufficient revenue to pay fees charged by Treasury's partner private sector banks as well as to provide a portion of the revenue required to support Treasury's internal costs related to banking activities. Charges for each type of service are detailed on a per transaction basis within the Oregon State Government Price List of Goods and Services. 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. Revenues are expected to total $19.3 million for the biennium.

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 Program continues to work on upgrading and modernization of the agency's cash management applications and private banking contractual relationships.

Approximately 76 state agencies and 10 public university entities have 827 open accounts with an aggregate balance of $10.2 billion. There are approximately 983 local governments with 1,592 accounts with an aggregate balance of $7.8 billion.

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.

Public Funds Collateralization Program

The Public Funds Collateralization Program assures that public funds held in more than 40 participating Oregon banks and credit unions are properly collateralized. The Finance Program administers the Public Funds Collateralization Program, which monitors commercial banks and credit unions that accept public funds to ensure that the institutions pledge sufficient and appropriate collateral against any public fund deposits in excess of deposit insurance amounts.

Revenue Sources and Relationships
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 $669,723 for the biennium.

Budget Environment
There are approximately 29 banks with $2.3 billion in public funds deposits and 10 credit unions with $22 million in public funds deposits participate in the program and were assessed the quarterly charges.

Debt Management Program

The Debt Management Program coordinates the sale and issuance of all state revenue and general obligation bonds, certificates of participation, and other financing agreements, including coordination of the sale of Tax Anticipation Notes. The Program also issues bonds for Oregon Business Development Commission projects, Oregon Facilities Authority projects, and revenue bonds for state universities. The Debt Management Program also determines state policy for the appropriate use and structure of interest rate exchange agreements and oversees the execution of specific interest rate swap transactions for various state bonding programs. The Program serves as a clearinghouse for all information related to the issuance of state and local government debt, including the publication of a state bond calendar and annual reports summarizing trends in local government debt. It administers the Oregon School Bond Guaranty Act, which permits the State to guarantee general obligation bonds issued by qualified school districts, education service districts, and community college districts.

The Program staffs the State Debt Policy Advisory Commission, which advises the Governor and the Legislature regarding policies and actions that will enhance and preserve the State of Oregon's credit rating and maintain access to credit markets and low-cost capital financing. The Commission maintains a multi-year forecast of Oregon's general fund and lottery debt capacity, as well as all tax-supported debt programs.

The Program assists local government debt issuance and management by staffing the Municipal Debt Advisory Commission, which tracks and reports on the issuance of all local government bonds. Debt Management Program staff also review and approve all local government advance refundings. The program also is responsible for the Oregon Facilities Authority, which connects nonprofits large and small statewide with tax-exempt "conduit" bonds, and for the Private Activity Bond Committee.

<u>Revenue Sources and Relationships</u>
The Program 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. Revenue is expected to total $4.2 million for the biennium.

<u>Budget Environment</u>
State-backed, long-term debt outstanding was roughly $10.9 billion (June 30, 2018). The Legislature in 2019 enacted SB 1049, which requires a public body or intergovernmental entity, prior to issuing pension obligation bonds, to obtain a statistically based assessment from an independent economic or financial consulting firm. The assessment would need to determine the likelihood that investment returns on bond proceeds would exceed the interest cost of the bonds under various market conditions. Upon receipt of the assessment, the public body or intergovernmental entity needs to make the results available to the public and disclose whether it has retained the services of an independent SEC-registered advisor. The public body or intergovernmental agency is required to submit the assessment to the State Treasurer at least 30 days before issuing the bonds. The State Treasurer is to then provide an annual report on local entities pension obligation bonds issued to the State Debt Policy Advisory Commission. The measure also limits diversion agreements to no more than 100% of an entity's State School Fund distribution.

Public Infrastructure Program

The executive branches of Oregon, California, Washington, and British Columbia formed the West Coast Infrastructure Exchange (WCX) to identify new methods for financing and facilitating infrastructure development needs. In 2013, the Legislative Assembly enacted HB 2345, creating the Oregon Innovation in Infrastructure Task Force to make recommendations regarding innovative practices relating to public infrastructure, as well as a recommendation regarding Oregon's participation in the WCX. HB 4111 (2014) created the Public Infrastructure Commission. 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 - Office of the State Treasurer

The Office of the State Treasurer is comprised of the State Treasurer, the Treasurer's Chief of Staff, legislative affairs, communications, policy, and executive support staff.

<u>Revenue Sources and Relationships</u>
The Office of the State Treasurer function is financed by a portion of each program's revenues that are internally assessed to support those functions. The State Treasurer's salary is set by statute ($77,000 per year plus Other Payroll Expenses). Revenue is expected to total $2.6 million for the biennium.

Budget Environment

State finance, of which State Treasury plays a key role, continues to become more complex given changes in investing, investment management, cash management, bonding, and relatively recent new program additions, such as the ABLE and ORSB programs.

Executive Services - Shared (Administrative) Services

Shared Services includes Treasury-wide business and support services, which include budget, accounting, human resources, procurement, data and records management, facilities operations, risk management, and project management; however, OST does procure accounting services from the Department of Administration Services (DAS) - Shared Client Services and from DAS for procurement services.

Revenue Sources and Relationships

The Shared Services function is financed by a portion of each program's revenues that are internally assessed to support those functions. Revenue is expected to total $11.4 million for the biennium.

Budget Environment

During the 2013-15 biennium, Treasury transitioned to utilizing DAS - Shared Client Services for payroll, accounting, and budget services. The Legislature approved OST's request for a Budget Officer in 2017. This began what OST would like to see as the return of DAS contracted services to Treasury; however, this re-insourcing was not approved by the Legislature in 2019.

Executive Services - Information Technology Services

Information Technology Services provides network, application development, and information security services.

Revenue Sources and Relationships

The Information Technology Services function is financed by a portion of each program's revenues that are internally assessed to support those functions. Revenue is expected to total $12.8 million for the biennium.

Budget Environment

Review and approval of the State Treasurer's information technology program and security plans by the Department of Administrative Services is not required by statute. OST continues to build upon an Information Security Management program that was originally started and funded by the Emergency Board in May of 2014.

Treasury Services Program

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget of $81 million is $5.4 million (or 7.2%) more than the 2017-19 legislatively approved budget and includes 157 positions (155.47 FTE). The budget includes select employee performance-based compensation. The budget includes the following:

- $1.5 million Other Funds expenditure limitation and establishes four positions (3.55 FTE), and reclassifies one position for the Investment Program.
- 780,691 Other Funds expenditure limitation to establish one limited duration Information Systems Specialist 8 position (0.92 FTE) and to purchase and implement additional information security tools and services.
- $212,877 Other Funds expenditure limitation and the abolishment of one permanent full-time Principal Executive Manager D position (1.00 FTE), which had been vacant since October 2017.

Oregon 529 Savings Network

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	647,040	1,334,466	441,787	--
Other Funds	4,883,790	6,377,827	6,151,635	7,517,661
Total Funds	**$5,580,830**	**$7,712,293**	**$6,593,422**	**$7,517,661**
Positions	5	5	5	5
FTE	3.75	5.00	5.00	5.75

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. Both of the Oregon plans are overseen by the five-member Oregon 529 Savings Board.

Oregon 529 College Savings Network Program

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. The maximum contribution for joint returns is $4,750 and $2,375 for all other filers, for 2018, and is adjusted annually for inflation. Under federal law, contributions to College Savings programs are not tax deductible; however, the earnings on accounts are excluded from taxable income.

Revenue Sources and Relationships

The College Savings program has two revenue impacts: program operating revenues and state tax expenditure, which is the reduction of General Fund revenues due to the tax deductibility of contributions. The Program 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. Revenues are projected to total $5.6 million for the biennium. The state tax expenditure, or measure of the General Fund revenue impact (loss), is estimated to be $33.2 million for the 2019-21 biennium.

Budget Environment

The Oregon 529 [College] Savings Network state plan (direct-sold) has 113,756 accounts (total assets of $2.1 billion), and the plan sold through private financial advisors has 84,381 accounts (total assets of $1.6 billion), as of June 30, 2019. In tax year 2016, 42,740 full year residence personal income tax filers took an average subtraction of $2,910 and 1,290 part-year residence personal income tax filers took an average subtraction of $2,960. Of note is that 87% of the revenue impact accrues to those whose income is above $92,700 a year.

Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors. A recent switch in plan administrators for the 529 College Savings Plans was poorly executed and resulted in a number of customer complaints; however, the program expects to see improved service and performance from the new vendor.

Achieving a Better Life Experience Act (ABLE) Program

The Stephen Beck Jr., Achieving a Better Life Experience Act program (ABLE) is open to individuals diagnosed with a disability before the age of 26. 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.

Up to $100,000 can be saved within an ABLE account without the assets affecting federal and state benefits and $15,000 can be contributed in 2018. The maximum contribution for joint returns is $4,750 and $2,375 for all other filers, for 2018, and is adjusted annually for inflation. Contributions and distributions are tax deductible under state law; however, the plan limits the tax exempt contributions to those made before the beneficiary of the account attains 21 years of age. Pre-tax contributions by individuals will be deposited directly into individual accounts held in trust by private third party investment administrators. The ABLE plan may accept deposits from out-of-state residents. There will be a federal tax benefit on the earnings and withdrawals from the account, if used for qualified expenses. The measure provides for the taxation of distributions that are not for qualified disability expenses.

<u>Revenue Sources and Relationships</u>
The ABLE program has two revenue impacts: program operating revenues and state tax expenditure, which is the reduction of General Fund revenues due to the tax deductibility of contributions. The current state administrative fee for the Oregon ABLE Savings Plan is 30 basis points (0.30 percent) annualized based on average daily net asset value and $40 per year per account. Such fees are estimated to total $1.6 million for the biennium. This is a material change from the prior biennium as the Program had to be supported by a General Fund loan. The state tax expenditure, or measure of the General Fund revenue impact (loss), is estimated to be $300,000 for the 2019-21 biennium. Under federal law, contributions to ABLE are not tax deductible; however, the earnings on accounts are excluded from taxable income.

OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The General Fund loan for the ABLE totals $1,983,266 for the 2015-17 and 2017-19 biennia.

<u>Budget Environment</u>
ABLE launched in December 2016, and as of March 31, 2018, had nearly $7.5 million in assets and 1,589 total accounts. In tax year 2016, about 120 personal income taxpayers saved approximately $200, on average, using the tax deduction. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors. SB 163 (2019) permits the Oregon 529 Savings Board to collect application, account, or administrative fees to defray the costs of the ABLE program. Prior to the measure's passage, OST did not have explicit statutory authority to impose or collect administrative fees in relation to the ABLE program.

In an attempt to achieve administrative efficiencies, the 529 College Savings, ABLE Savings, and OregonSaves programs will be jointly administered by the 529 Program staff.

<u>Legislatively Adopted Budget</u>
The 2019-21 legislatively adopted budget totals $7.5 million Other Funds and is $194,632 (or 2.5%) less than the 2017-19 legislatively approved budget and includes five positions (5.75 FTE). The budget includes the following:

- Package 104 reduces General Fund by $441,787, increases Other Funds expenditure limitation by $1,379,682, and increases existing positions allocated to the program by 0.75 FTE in aggregate. The package also reclassifies the Director and Deputy Director positions upward from salary ranges 40X to 45 and 32 to 38, respectively. The package makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; and shifts the ABLE Savings Plan budget from General Fund to Other Funds.

Oregon Retirement Savings Board

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	1,257,591	4,026,804	1,021,820	--
Other Funds	--	--	2,567,723	4,166,406
Total Funds	**$1,257,591**	**$4,026,804**	**$3,589,543**	**$4,166,406**
Positions	4	4	4	4
FTE	3.84	3.84	4.00	3.25

Program Description

The Oregon Retirement Savings Board (ORSB) is a program created by HB 2960 during the 2015 session. (The program has rebranded itself as the “OregonSaves” program.) ORSB is a seven member board, which includes two non-voting legislator members. 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.

Revenue Sources and Relationships

The ORSB charges administrative fees on assets under management in the program. Fees are collected by the plan administrator who remits monthly to Treasury a portion of those fees along with an annual minimum fee. The current state administrative fee for the OregonSaves program is 15 basis points (0.15 percent) annualized based on average daily net asset value, and $500,000 per year for program advertising costs. Revenues are expected to total $4.4 million for the biennium. This is a material change from prior biennium as the Program had to be supported by a General Fund loan. OST expects to start the repayment of outstanding General Fund loans during the 2023-25 biennium, based on revenue and expenditure forecasts from the initial program launch. The General Fund loan for the ORSB totals $5,318,384 for the 2015-17 and 2017-19 biennia.

Budget Environment

The plan has approximately $22.8 million in plan assets from over 16,000 contributing participant accounts as of August 2019. 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. Although administered by the Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

SB 166 (2019) permits the ORSB to enter into agreements with other states relating to retirement savings plans in those states and SB 164 (2019) makes employers failure to comply with the requirements of the ORSB an unlawful employment practice.

In an attempt to achieve administrative efficiencies, the 529 College Savings, ABLE Savings, and OregonSaves programs will be jointly administered by the 529 Program staff.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget totals $4.2 million Other Funds and is $139,602 (or 3.5%) more than the 2017-19 legislatively approved budget and includes four positions (3.25 FTE). The budget includes:

- Package 104, Oregon Savings Network. The package reduces General Fund by $1,021,820, increases Other Funds expenditure limitation by $1,618,118, and reduces existing positions allocated to the program by 0.75 FTE in aggregate. The package makes permanent the network consolidation and reorganization of the 529 College Savings, ABLE Savings, and OregonSaves programs; and shifts the OregonSaves budgets from General Fund to Other Funds.

LEGISLATIVE BRANCH

LEGISLATIVE BRANCH

Analyst: McHugh

Branch Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	89,165,955	127,615,571	127,631,848	142,327,537
Other Funds	11,679,791	33,617,314	12,610,246	18,296,815
Other Funds (NL)	5,943,243	1,170,433	1,477,131	1,527,131
Total Funds	**$106,788,989**	**$162,403,318**	**$141,719,225**	**$162,151,483**
Positions	654	660	559	573
FTE	431.77	447.81	446.17	459.00

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 the: 1) Legislative Administration Committee; 2) Legislative Counsel Committee; 3) Legislative Fiscal Office; 4) Legislative Policy and Research Office; and 5) Legislative Revenue Office.

The 2019-21 adopted budget for the Legislative Branch is $142.3 million General Fund, or 11.5%, more than the 2017-19 legislatively approved budget. Total funds are $251,835 less than the 2017-19 legislatively approved budget; essentially the total funds budget is flat as compared to 2017-19. The main reason for this is a decrease in Other Funds expenditure limitation related to capital projects for the Capitol building.

The General Fund budget for the Branch is more than the 2017-19 current service level due to additions in funding discussed in narratives on the individual legislative branch agencies below. Like the Judicial Branch, the Legislative Branch is allowed to keep any unspent General Fund.

Legislative Assembly

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	38,726,243	45,984,750	48,437,336	54,495,347
Other Funds	4,361	26,570	27,580	27,580
Other Funds (NL)	104,839	115,520	135,000	135,000
Total Funds	**$38,835,443**	**$46,126,840**	**$48,599,916**	**$54,657,927**
Positions	423	423	333	335
FTE	251.52	251.52	251.77	253.44

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

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. In 2010, voters approved a shorter annual session to be held in 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 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 2019-21 adopted budget for the Legislative Assembly is $54.5 million General Fund, 18.5% more than the 2017-19 legislatively approved budget level. Total funds are $54.7 million, 18.5% more than the 2017-19 legislatively approved budget. The General Fund increase in the Legislative Assembly budget is largely due to staffing and associated costs for the creation of a Legislative Equity Office, including funds for outside contracts and training for all legislative members and staff. The budget also provided for compensation adjustments, including adjustments related to the pay equity law passed during the 2017 session (HB 2005). Other changes were due to branch-wide adjustments related to implementation of a new telephone system and statewide budget reductions included in the final budget.

Legislative Administration Committee

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	33,025,945	49,693,363	44,596,708	50,784,229
Other Funds	7,126,023	27,665,211	6,620,683	11,826,630
Other Funds (NL)	5,342,049	500,000	765,561	765,561
Total Funds	**$45,494,017**	**$77,858,574**	**51,982,952**	**$63,376,420**
Positions	142	86	76	79
FTE	100.62	72.16	71.03	74.42

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

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 (Capitol Accessibility, Maintenance and Safety project). The variability in the Other Funds budget over the last several 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 2019-21 adopted budget for the Legislative Administration Committee is $50.8 million General Fund, 1.6% more than the 2017-19 legislatively approved budget. Total funds are $63.4 million, 18.6% less than the 2017-19 approved budget. The significant decrease is attributed to a reduction in Other Funds expenditure limitation related to Capitol building construction project costs.

The LAC budget included additional funds for the following:

- $2 million General Fund to start an ongoing fund for Capitol facility needs each biennium and $100,000 to start a similar ongoing fund for media equipment replacement.
- $250,000 General Fund and $5.2 million Other Funds for bonding and other project costs related to the Document Publishing and Management System. General Fund in the amount of $0.8 million is included for debt service costs associated with the project. Additional bond proceeds will be needed in the 2021-23 biennium to complete the project.
- Establishment of new positions in Employee Services to assist with branch-wide policy and rule development, Facility Services to assist with facility plans and project monitoring, and Information Services to assist with the new telephone system and technology development.
- $1.4 million to continue planning for the next phase of the Capitol Accessibility, Maintenance and Safety project.
- Continuation of funding for ongoing security and other project costs.

The budget also provided for other needed compensation adjustments, including adjustments related to the pay equity law passed during the 2017 session (HB 2005) and eliminated one session position (0.25 FTE) that is no longer needed. Other changes were due to branch-wide adjustments related to implementation of the new telephone system and statewide reductions included in the final budget.

Legislative Counsel

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	10,511,999	13,384,325	14,376,494	14,657,440
Other Funds	1,058,979	1,846,216	1,908,386	2,000,148
Other Funds (NL)	496,355	554,913	576,570	626,570
Total Funds	**$12,067,333**	**$15,785,454**	**$16,861,450**	**$17,284,158**
Positions	57	58	58	62
FTE	47,60	50.84	51.08	55.08

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

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 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 2019-21 adopted budget for Legislative Counsel is $14.7 million General Fund, 9.5% more than the 2017-19 legislatively approved budget. Total funds are $17.3 million, 9.4% more than the 2017-19 approved budget.

The Legislative Counsel budget includes funds to cover costs relating to the realignment and permanent establishment of four positions (Senior Deputy and Editor positions). The budget also provided for other needed compensation adjustments, including adjustments related to the pay equity law passed during the 2017 session (HB 2005). Other changes were due to branch-wide adjustments related to implementation of the new telephone system and statewide reductions included in the final budget.

Legislative Fiscal Office

	2015-17 Actual	**2017-19 Legislatively Approved**	**2019-21 Current Service Level**	**2019-21 Legislatively Adopted**
General Fund	3,765,890	4,969,314	6,107,186	7,807,489
Other Funds	3,489,242	4,072,282	4,046,295	4,435,155
Total Funds	**$7,255,132**	**$9,041,596**	**$10,153,481**	**$12,242,644**
Positions	22	22	22	27
FTE	22.00	22.00	22.00	25.77

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. 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 and supports committees related to information technology and audits. LFO produces various publications to guide the Joint Committee on Ways and Means processes; addresses specific budgetary topics; provides 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 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 2019-21 adopted budget for the Legislative Fiscal Office is $7.8 million General Fund, 57.1% more than the 2017-19 legislatively approved budget and $12.2 million total funds, 35.4% more than the 2017-19 legislatively approved budget. Other Funds now account for 36.2% of the agency's budget.

The significant increase was due to the addition of $1.7 million General Fund to add five new positions (3.77 FTE) to the office to support budget analysis capacity, the information technology review function, the Fiscal Impact Statement process, and the work of the Joint Legislative Audit Committee.

The budget also provided for other needed compensation adjustments, including adjustments related to the pay equity law passed during the 2017 session (HB 2005). Other changes were due to branch-wide adjustments related to implementation of the new telephone system and statewide reductions included in the final budget.

Legislative Policy and Research Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	9,889,412	10,698,993	11,018,643
Total Funds	**--**	**$9,889,412**	**$10,698,993**	**$11,018,643**
Positions	--	61	61	61
FTE	--	41.29	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 2019-21 adopted budget for the Legislative Policy and Research Office is $11 million General Fund, 12.4% more than the 2017-19 legislatively approved budget. LPRO did not exist in the 2015-17 biennium so there is no budgetary information for that time period. The services provided by LPRO were included within Legislative Administration prior to the creation of the office. The LPRO budget includes additional resources for implementation of the pay equity law passed in 2017 (HB 2005) and sufficient funds to continue all staff and services. Other changes were due to branch-wide adjustments related to implementation of a new telephone system and statewide budget reductions included in the final budget.

Legislative Revenue Office

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	2,715,111	3,065,527	2,858,746	2,833,427
Total Funds	**$2,715,111**	**$3,065,527**	**$2,858,746**	**$2,833,427**
Positions	8	8	7	7
FTE	8.00	8.00	7.00	7.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and to interim revenue committees, task forces, and work groups between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office prepares research reports and writes revenue impact statements on initiatives, proposed legislation affecting state or local public finance, personal and corporate income taxes, property taxes, consumption taxes, school finance, and distribution of the State School Fund.

Revenue Sources and Relationships

The Legislative Revenue Office is completely supported by General Fund.

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 2019-21 adopted budget for the Legislative Revenue Office is $2.8 million General Fund, or 0.76% less than the 2017-19 legislatively approved budget. The decrease in the LRO budget includes the transfer of an information systems position and associated funding to the Legislative Administration Committee. Other changes were due to branch-wide adjustments related to implementation of a new telephone system and statewide budget reductions included in the final budget.

Commission on Indian Services

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	420,767	628,880	556,385	730,962
Other Funds	1,186	7,035	7,302	7,302
Total Funds	**$421,953**	**$635,915**	**$563,687**	**$738,264**
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 consider 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

The agency is primarily supported by General Fund. 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 2019-21 adopted budget for the Commission on Indian Services is $730,962 General Fund, 16.2% more than the 2017-19 legislatively approved budget. Total funds are $738,264, 16.1% more than the 2017-19 legislatively approved budget. The budget includes additional resources for compensation changes, including the implementation of the pay equity law passed in 2017 (HB 2005). The budget provides sufficient funds to continue all staff and services. Other changes were due to branch-wide adjustments related to implementation of a new telephone system and statewide budget reductions included in the final budget.

EMERGENCY BOARD

EMERGENCY BOARD

Analyst: Morse-Miller

Totals

	2015-17 Actual	2017-19 Legislatively Approved	2019-21 Current Service Level	2019-21 Legislatively Adopted
General Fund	--	--	56,000,000	340,846,094
Total Funds	**--**	**--**	**$56,000,000**	**$340,846,094**

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

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. The Emergency Board allocates money from the Emergency Fund to finance contingencies that are not addressed in approved agency budgets. Appropriations are also made to the Emergency 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.

Recent History of the Emergency Fund ($ in millions)

	2015-17 Adopted	2015-17 End of Biennium	2017-19 Adopted	2017-19 End of Biennium	2019-21 Adopted
General Purpose	30.0	--	50.0	--	75.0
Salary and Benefit Adjustment	130.7	--	110.0	--	220.0
Special Purpose Appropriations	85.2	--	18.8	--	45.8
Total Emergency Fund	**$245.9**	**--**	**$178.8**	**--**	**$340.8**
Remaining Balance		$28.3		$57.3	

The Emergency Board allocates money to finance general employee compensation increases (salaries and benefits) when an appropriation is made for this purpose. In recent history, resources set aside for salary and compensation changes of state employees are distributed either in the even-year session or by the Emergency Board's first meeting following the even-year session. This is typically done since the full effect of the collective bargaining agreements is not known until several months following the conclusion of the odd-year session. In addition, the Emergency Board does not usually meet during the first, shorter interim and starts meeting on a quarterly basis following the even-year session.

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. During the odd-year session, the Legislature generally disappropriates any remaining funds in the previous biennium's Emergency Fund to rebalance that biennium's budget. This generally occurs in the first two months of the longer odd-year session.

For example, the $57.3 million remaining in the Emergency Fund from the 2017-19 biennium was disappropriated and used to rebalance the 2017-19 budget in HB 5046, which was signed into law on April 3, 2019.

Budget Environment

The typical general-purpose appropriation over the past several biennia has been $30 million, with unused special purpose appropriations augmenting the general-purpose Emergency Fund. In recent years the Legislature has adopted a larger general-purpose appropriation for emergency purposes. The 2017-19 legislatively adopted budget included $50 million due to concerns over the potential for large wildfire fighting costs and uncertainty around certain federal funding streams. Similarly, the 2019-21 legislatively adopted budget includes a general-purpose appropriation of $75 million, which includes reservations for mental health services and Oregon's child welfare system, due to emerging needs for these program areas.

Historically, the actual cost of implemented salary and benefit increases have significantly exceeded the amounts appropriated to the Emergency Board. 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). With an improved revenue situation, the 2019-21 legislatively adopted budget includes $220 million for compensation and benefit adjustments, twice the amount included in the 2017-19 budget. This amount is anticipated to cover the majority of costs related to compensation and benefit adjustments, including pay equity adjustments, though final costs for the 2019-21 collective bargaining agreements and compensation plan changes for management and unrepresented state employees have not yet been finalized.

Legislatively Adopted Budget

The 2019-21 legislatively adopted budget for the Emergency Board includes a $75 million general purpose appropriation. This amount includes two reservations:

- $10 million for the Department of Human Services for initiatives to improve Oregon's child welfare system.
- $9 million for the Oregon Health Authority to maintain the current level of community mental health program services that the agency provides.

The 2019-21 legislatively adopted budget also includes special purpose appropriations totaling $265.8 million:

- $200 million for state employee compensation changes.
- $20 million for non-state employee compensation changes.
- $20 million for the Public Defense Services Commission (PDSC) to support improvements to the public defense contract model and activities to reduce public defense caseloads.
- $8 million for fire costs incurred by the Oregon Department of Forestry.
- $5.7 million for the Oregon Health Authority to support interdisciplinary assessment teams that provide services to youth with behavioral health needs.
- $4 million to assist the Department of Human Services with increasing capacity for non-Medicaid in-home services under the Family First Prevention Services Act.
- $3 million for costs associated with grand jury recordings established by SB 505 (2017).
- $2 million for PDSC costs related to acquisition of a new financial management system.
- $1.1 million for costs related to prepaid postage for ballot return envelopes as established by SB 861 (2019).

- $1 million for the Public Defense Services Commission and Department of Corrections for an anticipated increase in prosecutions for unauthorized use of a vehicle resulting from HB 2328 (2019).
- $1 million for the Oregon Conservation and Recreation Fund, administered by the Department of Fish and Wildlife.

If the amounts in the special purpose appropriations are not allocated by the Emergency Board by December 1, 2020, the remaining amounts generally become available to the Board for any legal use.