2021-23

Legislatively Approved Budget

(includes actions through March 2022)

Detailed Analysis

Legislative Fiscal Office

November 2022

State of Oregon
Legislative Fiscal Office

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To the Members of the Eighty-First Oregon Legislative Assembly:

Following is the ***2021-23 Legislatively Approved 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 2021-23 biennium, including actions through March 2022.

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

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CONSUMER AND BUSINESS SERVICES PROGRAM AREA (continued)

EDUCATION

PROGRAM AREA

DEPARTMENT OF EDUCATION

Analyst: Neburka

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,129,027,552	966,301,239	986,839,340	1,264,559,621
Lottery Funds	692,870	0	0	0
Other Funds	1,333,366,598	2,103,600,777	2,537,080,869	2,591,395,343
Other Funds (NL)	120,364,721	137,133,538	137,133,538	137,133,538
Federal Funds	1,629,758,433	1,154,261,199	2,943,515,768	2,945,935,878
Federal Funds (NL)	407,115,946	435,672,830	435,672,830	446,672,830
Total Funds	**$4,620,326,120**	**$4,796,969,583**	**$7,040,242,345**	**$7,385,697,210**
Positions	697	676	772	896
FTE	650.90	663.43	753.23	811.54

The figures above do not include the State School Fund resources that 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).

ODE supports the State Board and the Deputy Superintendent in carrying out their K-12 related responsibilities, as well as for the early learning programs and youth development related programs under separate governing commissions. 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 program; 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. A new Department of Early Learning and Care (DELC) was approved during the 2021 legislative session and the various early learning programs will transfer to the new agency effective July 1, 2023.

The 2021-23 legislatively adopted budget of $986.8 million General Fund is $142.2 million, or 12.6%, less than the 2019-21 legislatively approved budget. The primary reason for this decrease is the $250 million summer learning initiative passed early in the 2021 session for spending during the Summer of 2021. The total funds budget of $7.040 billion is 52.4% greater than the 2019-21 amount, primarily due the roll-up costs of the Student Success Act and the $1.720 billion of COVID related federal funding included in the budget for distribution to school districts and childcare and early learning providers.

Legislatively Approved Budget

Changes made in the 2021 second special session and the 2022 legislative session increased the Department's budget overall by $345.5 million, or 4.9%, over the legislatively adopted budget. The bulk of the increase was made to the Department's General Fund appropriation, which increased by $277.7 million, or 28.1%, over the legislatively adopted budget. The two largest General Fund appropriations; $150 million for summer learning during the summer of 2022, and $97.7 million for an educator recruitment and retention program; are one-time programs for the 2021-23 biennium. General Fund investments were made in staffing for the Department and for the new DELC, and Other Funds expenditure limitation was increased for the Educator Advancement Council, the Youth Development Division, and for the High School Success program. Additional detail on these and other changes can be found in the following sections.

Operations and Educator Advancement Council

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	91,201,046	105,257,928	110,048,130	125,698,351
Other Funds	103,068,537	125,732,980	152,642,595	162,101,014
Other Funds (NL)	4,104,452	4,074,452	4,074,452	4,074,542
Federal Funds	96,513,137	98,413,908	156,241,145	158,658,002
Total Funds	**$294,887,172**	**$333,479,268**	**$423,006,322**	**450,531,819**
Positions	697	676	690	814
FTE	650.90	663.43	677.21	735.52

<u>Program Description</u>
The Operations budget area 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 and early learning providers. 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 Early Learning Council and the Youth Development Council provide the oversight of the programs in the appropriate divisions. This section also includes the staffing and grant funding for the Educator Advancement Council, which is responsible for funding and supporting professional development for educators in the early learning through K-12 systems.

The Operations budget area 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. This Office is responsible for supervising the agency's work for child nutrition, fingerprinting and pupil transportation, and includes a Ready Schools Safe Learners Team which coordinated many of the pandemic related activities of the agency.
- Office of Teaching, Learning and Assessment: Includes staff responsible for setting academic standards, grant administration and support for Career and Technical Education (CTE), school improvement, chronic absenteeism, federal Every Student Succeeds Act, and Measure 98 programs. Staff responsible for statewide assessment activities are also part of this office.
- Office of Enhancing Student Opportunities: Includes staff for administering, monitoring, and providing support for programs and grants relating to special education, Early Childhood Special Education, long-term Care and Treatment/hospital and youth corrections/juvenile detention, and the Oregon School for the Deaf.
- Office of Education Innovation and Improvement – Includes the staff responsible for administering many of the programs under the Student Success Act.
- Office of Equity, Diversity and Inclusion: Responsibility for activities related to closing achievement gaps, migrant education, civil rights, population specific statewide education plans, 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 childcare provider licensing,

subsidies, and training. The Division has many staff distributed across the state inspecting and monitoring the childcare system. The staff of this office will be transferred to the new Department of Early Learning and Care on July 1, 2023.

- 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 Council: Supports the Educator Advancement Council which provides grants to regional entities that are responsible for funding and supporting professional development and other support for educators in the early learning through K-12 systems. Grants distributed to the Regional Educator Networks (RENs) across the state are included in the budget area totals above.
- Office of Finance and Information Technology: Provides fiscal and administrative services, such as accounting, budgeting, payroll, information systems support, and procurement. This office is also responsible for the calculation and distribution of State School Fund payments to school districts and education service districts (ESDs). Also included in this Office is the unit charged with administering the Oregon School Capital Improvement Matching (OSCIM) program.

Revenue Sources and Relationships

Over a number of years, ODE staff resources and other Operations costs have gone from being funded with almost 50% General Fund (a more flexible funding source) in 2007-09 to just under 28% General Fund in 2021-23. Federal Funds account for 35% of expenditures and are tied to specific programs and functions, such as oversight and monitoring, as required by federal law. Other Funds has grown to almost 37% with the addition of Fund for Student Success resources.

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, population specific Education Plans, and the English Language Learners initiative. The Fund for Student Success contributes $43.8 million for staffing and other costs in this budget unit.

Major federal revenue sources include the Individuals with Disabilities Education Act (IDEA), the National School Lunch Program and other nutrition programs, assessment funds, Child Care Development Block Grant funds, Title XX funds, and programs associated with the federal Every Student Succeeds Act (ESSA), previously known as the No Child Left Behind Act.

Budget Environment

The Department has undergone a number of reorganizations in the past few biennia. These include the incorporation of two new major program areas in 2013, early learning and youth development. Staff for individual K-12 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. Passage of the Student Success Act (2019) also resulted in significant increases and reorganization of staff. When the new Department of Early Learning and Care (DELC) is established on July 1, 2023, a significant number of agency staff and approximately $1.3 billion in grant-in-aid programs will move out of the Department and into the new agency. The Early Learning staff represents the largest staff team currently in the Department of Education with 304 authorized positions (249.60 FTE), 88 of which were added during the 2022 legislative session.

Funding to support the Educator Advancement Council (EAC) and its grants to Regional Educator Networks (RENs) 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 the RENs 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 $53.9 million Other Funds for grant programs will be available for the regional entities. Grants will be used for regional capacity and start-up grants ($4.5 million), distribution through the EAC formula ($32 million), an Indigenous Educators program ($10 million), and technical assistance and anti-racism programs ($6.3 million). Another $1.1 million is transferred to the Higher Education Coordinating Commission for the Oregon Teachers Scholars program.

The Department has had to add staff temporarily to administer the federal COVID aid that was included in its budget for distribution to school districts, early learning providers and others. At least 23 limited duration positions are included in the 2021-23 budget for this purpose. Many are administrative support positions needed for grant processing, but some are more programmatic in nature. The America Rescue Plan legislation passed in the Spring of 2021 places additional monitoring and planning requirements on ODE that were not part of the first two COVID related federal bills.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget for the Operations and the Educator Advancement Council budget area of $110 million General Fund ($423 million total funds) reflects an increase of $18.8 million, or 20.7%, from the 2019-21 legislatively approved budget for General Fund support, and a $128.1 million, or 43.4%, increase in total funds over the same period. The total funds growth is primarily due to four factors: the staffing and support for the programs funded through the Fund for Student Success which now spans the full biennium instead of one year as was in 2019-21; federal COVID related spending for increased agency responsibilities; early learning related COVID related spending; and expansion of Educator Advancement programs.

Major changes in this budget area include:
- Twenty-three limited duration positions (22.50 FTE) were approved to meet the agency's additional responsibilities for administering and monitoring the $1.720 billion in federal COVID related funding included in the ODE budget. The American Recovery Plan places significant responsibilities for ODE requiring it to review planning by school districts on how they will utilize the federal aid. Other staff was continued for grant administration, contracts and other financial duties. Funding is included for K-12 and early learning related federal funding.
- With the pandemic, many of the Fund for Student Success programs and other activities were delayed into the 2021-23 biennium. Three limited duration positions will assist districts with financial transparency. A position created in 2019-21 to provide overall coordination for the implementation of the Student Success Act was originally established as limited duration but was changed the on-going given there is a permanent need for the position. Similarly, a digital learning position originally created as limited duration funded with federal COVID funds was approved to continue as permanent. General Fund resources will likely be required for the position in future biennia. $1.2 million of Fund for Student Success resources was added for purchasing and implementing a new Electronic Grant Management System that was delayed in 2019-21.
- A position was established to develop, implement, and protect technical assistance relating to the new LGBTQ education student success plan. There is $2 million in the K-12 Grant-in-Aid budget unit for grants related to the plan.
- $475,569 General Fund was approved to continue the replacement of the information systems associated with the distribution of the State School Fund, which distributes over $13 billion in state and local funds to school districts. Two limited duration positions (1.84 FTE) are approved to continue the project.
- Nine permanent full-time positions were added to provide additional support to the business and administrative functions of the agency. All of these positions were limited duration in 2019-21, but with the continued growth in agency programs there is an on-going need for the positions. This $1.9 million addition includes $1.3 million Other Funds funded through the indirect revenues and the Vision Health Account, and $0.6 million General Fund.
- Two new Educator Advancement Council (EAC) initiatives are approved. The first is an Indigenous Education Institute to create a network for current educators, assist in funding for schooling and licensure for future Indigenous educators and administrators, and share best practices among educators and leaders. Three

positions (2.76 FTE) are designated for this Institute. The second initiative is to address anti-racist leadership issues and one position (0.92 FTE) is designated for it. The EAC will work with other agency staff and the Education Service Districts on this initiative. A total of $2.5 million Other Funds is committed for these two initiatives for staffing and other costs in the Operations budget unit and another $11.5 million Other Funds are available for grants -- $10 million for the Indigenous Education Institute and $1.5 million for distribution to the EAC's Regional Education Networks. The funding for these two initiatives is from one-time carry forward resources even though some elements of the initiatives could be ongoing.

- One position (1.00 FTE) is established to facilitate and staff a new Tribal Early Learning Hub, which will add to the 16 existing regionally based Hubs. Hubs are cross sector partners that work together to create local systems for early learning. The cost of the position is $250,113 General Fund; there is an additional $601,150 General Fund in the K-12 Grant-in-Aid budget unity for start-up funding for the new Hub.
- SB 155 was passed by the Legislature in 2019, requiring ODE to investigate allegations of suspected sexual misconduct that involve a student and an individual who is a school district employee, contractor, agency, or volunteer who is not licensed by the Teachers Standards and Practices Commission. The number of investigations is significantly higher than originally estimated, so seven additional positions (6.21 FTE) at a cost of $944,675 General Fund were added.
- HB 3073 (2021) establishes the new Department of Early Learning and Care (DELC), and this budget includes 14 positions (12.92 FTE) for planning and development of the various programmatic and administrative systems for the new agency. The full 24-month cost of the 14 positions was included at a cost of $3.5 million General Fund. Another $5.1 million General Fund was included as a special purpose appropriation to the Emergency Board for positions to be hired after March 1, 2022 and other estimated costs of the new agency.
- A total of $44 million federal funds was included in this budget unit from COVID related federal legislation. ELD will have to return to the Legislature or Emergency Board with its plan on how to use these funds and to request position authority. There is another $473 million of federal COVID related federal funding in the Early Learning Grant-in-Aid section. Other ELD changes included adding a permanent Policy and Research Director position (1.00 FTE) at a cost of $307,292 General Fund and continuation of five ELD positions (5.00 FTE) started in 2019-21 as limited duration positions. Two Compliance Specialist positions (2.00 FTE) were eliminated for a savings of $354,296 General Fund and $118,490 federal funds.
- Eight limited duration positions (7.40 FTE) and $6.3 million Federal Funds expenditure limitation was included for the staff and associated costs needed to continue a number of federal grants into the 2021-23 biennium.
- Seven positions (4.75 FTE) were added for specific policy bills, including one position to coordinate the new requirement for placement of menstrual hygiene items in schools (HB 3294), three positions (2.25 FTE) to develop and coordinate a new system for preventing early childhood program expulsions and suspensions (HB 2166), and three positions (2.50 FTE) for the vision screening program.
- Other changes to the Operations budget unit include: added one position (0.92 FTE) and $3.5 million Other Funds to implement a school facilities assessment program funded through a carve-out from the State School Fund; added one position (0.92 FTE) to develop content standards for social emotional learning; a position (1.00 FTE) to augment an existing position to ensure there is an Educational Specialist each for health education and sexuality issues; and added $675,386 in General Fund resources for temporary employees and contracts to cover the staffing costs of processing reimbursements and other administration responsibilities associated with the summer learning initiative passed early in the 2021 legislative session.
- A total of $1.7 million General Fund was reduced for savings in targeted personal services and services and supplies categories.

Legislatively Approved Budget

Actions taken during the 2022 legislative session increased the Operations and Educator Advancement Council budgets by $15.7 million General Fund, $27.5 million total funds, and 124 positions (58.31 FTE), increasing the General Fund budget by 14.2% and the total funds budget by 6.5%.

In addition to $6.7 million total funds increases to accommodate previously approved compensation plan adjustments, major increases in this budget area included:

- The addition of $5.2 million Other Funds expenditure limitation on a one-time basis and establishment of ten limited-duration positions (5.80 FTE) to support the design and launch of a comprehensive professional learning system for preschool-through-high school educators, and to increase capacity grants to the ten Regional Educator Networks.
- $6.8 million General Fund and 66 position (27.88 FTE) in the Early Learning Division for the new Department of Early Learning and Care.
- $1.4 million General Fund and eleven positions (6.36 FTE) to bolster the Department's procurement and contracting program.
- $2.4 million General Fund and 20 positions (8.55 FTE) to process background checks through the Central Background Registry for the Employment Related Day Care program and for Recorded Programs.
- $1.6 million General Fund and 12 positions (6.62 FTE) to implement and operate the educator workforce recruitment and retention program established by HB 4030 (2022).
- $900,000 General Fund was added to support five positions (3.10 FTE) for the Summer Learning Program, the Youth Development portion of the Future Ready Oregon program, the Native Hawaiian/Pacific Islander State Plan, and to conduct a survey of assessments.

Oregon School for the Deaf

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	12,059,145	14,315,702	14,315,702	14,764,806
Other Funds	6,665,115	6,598,468	6,598,468	6,686,118
Federal Funds	253,234	127,528	329,420	332,673
Total Funds	**$18,977,494**	**$19,211,518**	**$21,243,590**	**21,783,597**
Positions	82	82	82	82
FTE	76.02	76.02	76.02	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. On May 1st, 2021, there were a total of 92 students enrolled at the School with 43 (46%) being residential students. This compares to a total of 116 total students during the 2018-19 school year reflecting the impact of the pandemic. As of May 1, 2021, 52% of the students were in high school, 17% in middle school (grades 5 to 8), and 30% in elementary school.

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 and nutrition related.

Budget Environment

The OSD facilities are aging and have significant deferred maintenance needs. A report issued seven years ago identified deferred maintenance projects that needed to be addressed, which the Department began to address. 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 to transfer 50% of the net proceeds from the sale of the Oregon School for the Blind to ODE for improvements, repairs, and maintenance costs benefitting the health, safety, and housing of the students at OSD. DAS transferred approximately $2.6 million for this purpose, all of which has been used or committed. ODE has used proceeds of Article XI-Q bonds and other revenues to continue the necessary work, and this practice is continued for the 2021-23 biennium as discussed in the school facilities section below.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $14.3 million General Fund is $2.3 million, or 18.7%, greater than the 2019-21 legislatively approved budget. The total funds budget of $21.2 million is also $2.3 million more than the 2019-21 amount. Staffing levels continue at the same level. The increase in the budget is almost entirely due to the standard compensation changes for the existing positions. There is an increase of $201,892 federal funding to realize the growth in IDEA or special education funding which will be used for services and supplies.

Legislatively Approved Budget
The addition of budget adjustments for previously approved compensation plan changes totaling $540,007 all funds were approved, which increased the OSD budget by 2.5% over the legislatively adopted amount.

K-12 Grant-in-Aid

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	710,733,183	516,840,150	520,499,993	772,918,367
Other Funds	741532691	1,671,796,047	1,704,667,048	1,742,201,768
Federal Funds	1,297,282,697	878,027,454	2,101,729,668	2,101,729,668
Federal Funds (NL)	407,115,946	435,672,830	435,672,830	446,672,830
Total Funds	**$3,156,664,517**	**$3,502,336,481**	**$4,762,569,538**	**5,063,522,633**

Program Description
The Department's Grant-in-Aid programs are primarily focused on the purchase of educational services for students with specific educational needs or in specialized areas of need. 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. Programs under this budget area are divided into the following areas:

- Student Success grants including Ballot Measure 98 grants, Student Investment grants, reading programs, and chronic absenteeism grants.
- District Capacity and Technical Assistance including Student Success Act ESD technical assistance grants, academic Early Warning grants, and foster care transportation grants.
- STEM and CTE Related programs including Regional Network grants, Revitalization grants, Career Pathways and Future Farmers of America grants.
- Nutritional programs including School Lunch and Breakfast programs and the Farm-to-School program.
- Closing the Achievement Gap programs including student success plans for specific populations, English Language Learners grants, federal Title I grants and Summer School grants.
- Specialized Student Service grants including special education programs, Early Intervention/Early Childhood Special Education programs, Long Term Care and Treatment program, and Regional programs.

Grants are made for specific 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, 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. This budget unit also includes the funding of grants to school districts under Ballot Measure 98 which established the High School Success Grant program.

The largest change in this budget area recently is related to passage of the Student Success Act (2019), which provided over $1.2 billion Other Funds for a variety of K-12 programs. The largest of these programs are the Student Investment Grants ($892.3 million) which are distributed to school districts based on a formula, and a portion of the High School Success or Ballot Measure 98 grants ($136.7 million). More detail on the Student Success funding for 2021-23 can be found in the table below.

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 Youth Corrections, the Long-Term Care and Treatment program, English Language Learners program, and a portion of the nutrition or school lunch program. As noted above there is also over $1.2 billion Other Funds generated from the corporate activities tax (CAT) authorized under the Student Success Act (2019). Most of the CAT revenue is deposited in the Fund for Student Success (FSS). In the K-12 Grant-in-Aid budget unit, most of the programs are funded from the Statewide Educations Initiatives Account of the FSS except for the Early Intervention/Early Childhood Special Education (EI/ECSE) which is funded out of the Early Learning Account.

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

Budget Environment

The EI/ECSE program serves children with disabilities and their families to improve developmental status and increase school readiness for each child. The EI portion of the program serves children from birth through age 2 and is statutorily required. The ECSE component serves children from age 3 until the age at which schooling begins (usually age 5) and is federally mandated. The Department generally contracts with Education Service Districts (ESDs) to provide and coordinate the services. Within the statewide budget development process, EI/ECSE is the only mandated caseload program in K-12 other than the State School Fund and receives funding adjustments based on caseload count plus inflation. Even with these mandated increases, the service level for the program has traditionally lagged actual need given the cost factors are similar to those facing the general education systems including teacher compensation and benefits. With the additional amount provided through the Student Success Act it is estimated that funding for the second year of the 2019-21 biennium met the total calculated need. With the pandemic, service levels for the program may have lagged, but the agency will have a better idea of the actual need and use a few months into the 2021-23 biennium.

Four biennia ago, 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; those programs that were not discontinued were significantly scaled back. 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. In the past two biennia, professional development and educator effectiveness (funded through the NQTL and General Fund) followed a similar pattern as many programs were replaced with the Educator Advancement Council programs. This trend of program change continued as the new Student Success Act was implemented in 2019-21 and more new programs (e.g., Summer Learning programs and Student Investment grants) were 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 that funding is spread too thin across districts, limiting their effectiveness. The Budget Report for HB 5015 (2019) included a budget note requiring ODE to study the various Grant-in-Aid programs and to determine whether programs can be combined or eliminated. A report back to the Joint Committee on Ways and Means during the 2020 legislative session was required. With the challenges facing the agency with the new Student Success Act as well as the pandemic closing down in-person instruction, the agency was unable to complete the report during the 2020 legislative session, but presented it during the 2022 legislative session.

ODE is responsible for ensuring that educational services are provided to children in the Oregon Youth Authority's (OYA) close custody facilities through the Youth Corrections Education Program (YCEP) and in county detention centers through the Juvenile Detention Education Program (JDEP). The Department contracts with local education service districts (ESDs) to provide such services. Even before the pandemic, the number of youths receiving these services was dropping and it has been even dropping faster during the pandemic. Funding originates as a carve-out from the State School Fund as each youth in the programs receives a specific ADMw amount. Even with a decreasing number of youths participating, the programs must provide grade specific classroom instruction. That means that a teacher and associated staff must be available even for a small number of students. Some of the JDEP programs are needing to find other resources to stay open. A new revenue structure must be identified to meet the needs of the programs. One-time bridge funding of $8 million General Fund is included in this 2021-23 budget as an interim step as a budget note instructs ODE to work with partners and to incorporate a new revenue structure for these programs for the 2023-25 budget.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $4.763 billion total funds is $1.606 billion, or 50.9%, greater than the 2019-21 legislatively approved budget, while the General Fund budget of $520.5 million is $190.2 million, or 26.8%, less over the same period. The General Fund decrease is almost entirely due to the $250 million summer learning initiative passed early in 2021 legislative session of which almost all was distributed or deposited into another account during 2019-21. Without this one-time investment, the 2021-23 K-12 Grant-in-Aid General Fund would have been 9.8% greater than the 2019-21 amount. A detailed listing by major program is outlined on the table at the end of this section, including a column under the 2019-21 legislatively approved budget for those programs funded from the new Fund for Student Success (FSS). Total funds increases are primarily driven by the increase in COVID related federal funding (over $1.2 billion Federal Funds) and the roll-up of Student Success Act program for the entire biennium.

Significant changes to K-12 Grant-in-Aid programs include:

- A new state education plan is established for the LBGTQ+ school population with $2 million Other Funds available for grants to organizations serving this population. A staff position is also established to initially assist in the development of the plan and to manage the grants. Funding is expanded for the Latinx state education plan by expanding it by $5.1 million Other Funds over 2019-21 levels ($4 million over CSL) to a total of $6.1 million Other Funds. These two investments are made with resources from the Fund for Student Success. Funding for the African American Education Plan and the Native American Education Plan is maintained at CSL amounts of $14.4 million and $6.7 million total funds respectively.
- While some STEM and CTE programs were reduced, $5 million General Fund was added for a new Mathways program ($2 million), expansion of Regional STEM Hubs ($2.1 million), and an expansion of STEM Innovation grants ($0.9 million). All three of these investments are to be directed to assist diverse learners or students who have historically had access issues to STEM programs.
- A one-time investment of $8 million General Fund for the Juvenile Detention Education Program (JDEP) and the Youth Corrections Education Program (YCEP). These funds are to be used to transition to a new payment structure for these programs which are currently funded as a "carve-out from the State School Fund. ODE is to work with providers and other education advocates to develop a new payment structure for consideration by the 2023 Legislature. (see discussion in Budget Environment section above).

- Student Investment grants funded from the Fund for Student Success (FSS) increases from $150 million for 2019-21 (second year of the biennium) to $892.3 million Other Funds, significantly above the 50% minimum required of total FSS distributions. Other FSS funded (Other Funds) program changes include an additional $2 million for the ongoing summer learning program for Title I schools bringing the total available to $8.3 million; and grant funds available to high needs districts identified through the Student Success Act process is increased to $25 million, an increase from $4 million from 2019-21 since the pandemic delayed full implementation.
- The nutrition programs funded through FSS were delayed due to the pandemic and the federal government's waiver allowing the use of federal funding for both school-based programs and meals distributed to students' home. The $1.2 million Other Funds one-time investment in 2019-21 for equipment purchases for Breakfast After the Bell programs was delayed due to the pandemic is now scheduled for 2021-23. The Hunger Free Schools grants funded through the FSS saw little spending in the 2020-21 school year since schools were generally not open and from additional federal resources for similar purposes through a federal waiver. For the 2020-21 school year, $40.4 million had been allocated for this program with an anticipated roll-up to $84.3 million for 2021-23. The federal government is expected to continue the waiver letting districts use federal funds for similar purposes and ODE estimates that $52.2 million is what will be required for 2021-23.
- Spending from the $250 million summer learning initiative passed early in the 2021 legislative session will continue into the first few months of 2021-23. A total of $129.1 million Other Funds expenditure limitation was approved representing the amount the agency estimated that would be paid out in 2021-23 from the Summer Learning Program Account.
- Just over $3 million Other Funds (one-time) expenditure limitation is included for grants to school districts and ESDs for assisting in paying costs generally covered from insurance and federal assistance resulting from the wildfires in the Fall of 2020. This is an estimated amount for six districts that might need assistance and payment will be out of an account established for this purpose originally funded with General Fund.
- An increase of over $1.203 billion Federal Funds expenditure limitation was approved for estimated distribution of federal COVID related assistance for K-12 through the Elementary and Secondary Emergency Relief program (ESSER) and Governors Education Emergency Relief program (GEER). This represents the amount that the agency estimates will be distributed during 2021-23. Most of the funds represent ESSER funds that are allocated to school districts based on a federal formula. Districts must request reimbursement from the agency for eligible expenses under the federal rules.
- Some K-12 Grant-in-Aid programs were eliminated or reduced during the August 2020 special session and some of these reductions are continued for 2021-23, all are General Fund. They include Regional Promise grants, various STEM and CTE related programs ($2.2 million) including Regional Network grants, Career Pathway Fund, Innovation grants, For Inspiration and Recognition of Science and Technology (FIRST) grants, and the Farm to School program ($5.1 million).
- Two policy bills added resources to this budget unit. HB 2166 included $2 million Other Funds resourced with FSS funds for additional assistance for public charter schools and SB 222 provided an additional $2 million General Fund for the vision screening program.

<u>Legislatively Approved Budget</u>
The 2021-23 legislatively approved budget of $5.06 billion total funds is $301 million, or 6.3%, greater than the 2021-23 legislatively adopted budget, while the General Fund budget of $772.9 million is $252.4 million, or 48.5%, more. The General Fund increase is the sum of the 2022 Summer Learning Program ($149.7 million), the Educator Workforce recruitment and retention program ($97.7 million), and an additional $5 million for grants in the African American Black Student Success Plan.

Major Other Funds expenditure limitation changes include $12.5 million for wildfire-affected schools (HB 4026) and $26.1 million in carryover funding for the High School Success program. Federal Funds from the U.S. Department of Agriculture for school nutrition programs increased by $11 million.

K-12 Grant-in-Aid Programs - *dollars in millions*	2019-21 Legislatively Approved Budget			2021-23 Legislatively Adopted Budget			2021-23 Legislatively Approved Budget		
	GF	OF/FSS	FF	GF	OF/FSS	FF	GF	OF/FSS	FF
Student Success Grant Programs									
Start Making A Reader Today (SMART)	0.14	-	-	0.28	-	-	0.28	-	-
Reach Out to Read Program	0.04	-	-	0.08	-	-	0.08	-	-
Supporting Accelerated Learning Opportunities	1.54	-	-	2.86	-	-	2.86	-	-
Regional Promise Grants	1.61	-	-	-	-	-	-	-	-
Physical Education Grants	1.29	2.89	-	1.48	3.05	-	1.48	3.05	-
Chronic Absenteeism Grants	3.24	-	-	6.75	-	-	6.75	-	-
High School Success Grants (Measure 98)	-	299.40	-	-	307.32	-	-	307.32	-
High School Success Grants 19-21 CARRYOVER ONLY	-	-	-	-	16.57	-	-	42.63	-
Student Investment Program - Formula Grants	-	150.00	-	-	892.28	-	-	892.28	-
Student Investment Intensive Program: High Need	-	4.00	-	-	25.03	-	-	25.03	-
Interfund Transfers from General Fund	195.62	1.61	-	174.62	-	-	174.62	-	-
Emergency Use Federal Funds (CRF, GEER, ESEER, etc.)	166.97	-	4.11	-	-	1231.29	-	-	1231.29
Wildfire Funding (one-time over 2 biennia)	-	-	-	-	-	-	-	12.50	-
Teacher Recruitment/Retension & Substitute Training (one-time)	-	-	-	-	-	-	97.70	-	-
Summer Learning Programs (2021, 2022) (one-time)	-	-	-	-	-	-	149.71	-	-
Other Federal/Other Funds Grants	7.44	21.81	459.08	-	143.71	18.15	-	144.83	18.15
District Capacity and Technical Assistance Grant Programs									
ESD Technical Assistance Support Grants	-	20.00	-	-	41.08	-	-	41.08	-
Healthy & Safe School Plan Grants	-	2.00	-	-	2.00	-	-	2.00	-
Statewide School Safety & Prevention Systems	-	1.73	-	-	3.31	-	-	2.97	-
Early Warning System Grants	-	1.53	-	-	3.65	-	-	3.65	-
Electronic Warning System Technical Assistance Grants	-	1.00	-	-	1.83	-	-	1.83	-
Foster Care Transportation Grants	-	2.00	-	-	2.09	-	-	2.09	-
STEM and CTE Related Programs									
STEM/CTE Regional Network Grants	4.43	-	-	6.72	-	-	6.72	-	-
CTE Revitalization Grants	6.42	-	-	7.32	-	-	7.32	-	-
Mathways	-	-	-	2.00	-	-	2.00	-	-
STEM/CTE Career Pathway Fund	7.76	-	-	8.09	-	-	8.09	-	-
STEM/CTE Innovation Grants	4.21	-	-	5.29	-	-	5.29	-	-
Student Leadership Centers	0.66	-	-	0.76	-	-	0.76	-	-
Future Farmers of America Association	1.43	-	-	1.49	-	-	1.49	-	-
Agricultural Summer Program Grants	0.60	-	-	0.63	-	-	0.63	-	-
For Inspiration & Recognition of Science & Tech (FIRST)	0.24	-	-	-	-	-	-	-	-
CTE Vocational Education Grant: Perkins Grant	-	-	33.33	-	-	34.72	-	-	34.72
Nutritional Programs									
Federal Reimbursement Programs	-	-	407.12	-	-	435.67	-	-	446.67
After School Meal/Snack Program	0.50	-	-	0.52	-	-	0.52	-	-
Breakfast & Summer Lunch Programs	1.01	-	-	1.06	-	-	1.06	-	-
Breakfast After the Bell Program	-	1.18	-	-	1.18	-	-	1.18	-
Hunger Free Schools Program Grants	-	40.43	-	-	52.17	-	-	52.17	-
Free Lunch Grant Program (SSF Transfer)	-	2.85	-	-	2.85	-	-	2.85	-
Farm to School - Transfer to Agriculture	0.50	-	-	0.24	-	-	0.24	-	-
Farm to School Programs	9.31	-	-	9.99	-	-	9.99	-	-
Educator Effectiveness & Professional Development									
Accelerated College Credit Instructor Program	-	0.14	-	-	-	-	-	-	-
School Dist Collaboration Grant	-	0.00	-	-	-	-	-	-	-
Educator Professional Development Grants	-	14.72	-	-	30.72	-	-	30.72	-
Interfund Transfers from General Fund	0.14	-	-	-	-	-	-	-	-
Title IIA Teacher and Principal Grant	-	-	37.67	-	-	39.29	-	-	39.29
Closing the Achievement Gap									
African American Education Plan Grants	6.23	3.81	-	6.50	7.95	-	11.50	7.65	-
Latino State Plan	-	1.00	-	-	6.09	-	-	6.09	-
LGBTQ State Plan	-	-	-	-	2.00	-	-	2.00	-
Native American Education Plan Grants	-	3.19	-	-	6.65	-	-	5.15	-
Public Charter School Equity	-	-	-	-	2.00	-	-	2.00	-
Tribal Attendance Grants	1.61	-	-	1.68	-	-	1.68	-	-
Native American Curriculum Grants	1.80	-	-	-	-	-	-	-	-
English Language Learners Grants	-	10.00	-	-	10.00	-	-	10.00	-
English Language Learners One-time carryover funding	-	-	-	-	3.00	-	-	3.00	-
Summer School Grants	41.20	69.51	-	-	8.26	-	-	8.26	-
Low Income: Title I, Part A	-	-	301.13	-	-	313.00	-	-	313.00
School Improvement Grants	-	-	20.38	-	-	21.26	-	-	21.26
Migrant Education (Title I, Part C) Grants	-	-	38.00	-	-	40.01	-	-	40.01
English Language Acquisition (Title III) Grants	-	-	13.38	-	-	13.97	-	-	13.97
Title IV-A Student Enrichment Grants (new 2018-19)	-	-	20.00	-	-	20.89	-	-	20.89
Title IV-B 21st Century Community Learning Centers	-	-	18.79	-	-	19.71	-	-	19.71
Specialized Student Service Grant Programs									
Vision Screenings Reimbursements	-	1.06	-	-	3.23	-	-	3.23	-
Youth Corrections Education Program (YCEP)	-	14.35	2.39	2.80	9.70	1.05	2.80	9.70	1.05
Juvenile Detention Education Program (JDEP)	-	-	-	5.16	5.27	0.08	5.16	5.27	0.08
Transition Network Facilitator Grants (TNFs)	1.40	-	-	1.46	-	-	1.46	-	-
Early Intervention/Early Childhood Educ (EI/ECSE)	194.37	-	33.16	216.11	-	29.01	216.11	-	29.01
Regional Programs	28.73	-	33.96	29.97	-	35.24	29.97	-	35.24
Hospital Programs	1.37	6.12	0.08	1.48	6.32	0.09	1.48	6.32	0.09
Long Term Care and Treatment	13.40	25.31	3.02	20.50	19.88	3.07	20.50	19.88	3.07
Blind & Visually Impaired	-	1.60	-	-	1.68	-	-	1.68	-
Individuals with Disabilities Act (IDEA) Grants	3.31	-	271.53	-	-	280.91	-	-	280.91
Charter School Grants	-	-	7.27	-	-	-	-	-	-
Interfund Transfers from General Fund (BVIS/VS)	2.20	-	-	4.66	-	-	4.66	-	-
Other Special Education Grants	-	0.80	-	-	-	-	-	-	-

Early Learning Division Grant-in-Aid

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	269,948,546	266,941,330	280,319,397	284,442,228
Other Funds	217,001,306	284,798,165	390,497,311	360,497,311
Federal Funds	235,255,865	177,219,308	683,960,356	683,960,356
Total Funds	**$722,205,717**	**$728,958,803**	**$1,324,777,064**	**1,328,899,895**

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 2013 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. The 2021 Legislature passed HB 3073 which establishes the new Department of Early Learning and Care (DELC) and transfers the programs and staff of the Early Learning Division to the new agency effective July 1, 2023. The governing and advisory entity for the current Division and new agency is the Early Learning Council and the staff is led by the Early Learning Systems Director who is appointed by the Governor.

The Division relies on a network of Early Learning Hubs to provide local coordination and planning for 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. Early Learning programs include Oregon Pre-Kindergarten (a state companion program for the federal Headstart program), Preschool Promise (a "mixed delivery" preschool program), Early Headstart, Healthy Families, Relief Nurseries, Kindergarten Readiness and Innovation grants, Early Childhood Equity Fund, and Baby Promise.

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 ODE budget. Asset Forfeiture funds (Other Funds) are used for Relief Nurseries. Many of the programs receive resources from the Early Learning Account of the Fund for Student Success (FSS). Federal childcare 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. HB 3073 transfers the ERDC program to the new Department of Early Learning and Care at the beginning of the 2023-25 biennium.

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 pay for coordinated services provided to eligible children. Families with incomes 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 were estimated to be served by the end of the 2019-21 biennium. The Preschool Promise program generally serves children and families between 100% and 200% of the FPL.

The local systems 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. They were conceptually designed to operate in a manner similar to the Coordinated Care Organizations for the Oregon Health Plan. There are currently 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 base funding of $200,000 is provided. In 2021, funding for a Tribal Early Learning Hub was provided to meet the needs of Native Americans on a statewide basis instead of within a specific region.

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 childcare 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 do not always overlap making coordination more difficult. A budget note was included in HB 5015 (2019) instructing ELD to study the feasibility of consolidating them to better align regional entities.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Early Learning Division’s related Grant-in-Aid programs is $280.3 million General Fund and $1.325 billion total funds. This represents increases of $10.4 million General Fund (3.8%) and $602.3 million total funds (83.4%) over the corresponding 2019-21 legislatively approved budget levels. The large increase in total funds primarily due to two factors -- (1) the $216.8 million increase in Other Funds from the Fund for Student Success investments that reflect the rollup of the funding from the first year to both years of the biennium and resulting expansion of many of the programs; and (2) $473.8 million included in the budget in federal COVID related funding. The following table displays the funding for the various Early Learning Grant-in-Aid programs.

Early Learning Grant-in-Aid Programs - *dollars in millions*	**2019-21 Legislatively Approved Budget**			**2021-23 Legislatively Adopted Budget**			**2021-23 Legislatively Approved Budget**		
	GF	**OF/FSS**	**FF**	**GF**	**OF/FSS**	**FF**	**GF**	**OF/FSS**	**FF**
Oregon Prekindergarten (OPK 3-5)	156.42	44.40	-	163.14	110.04	-	163.14	110.04	-
Early Head Start (OPK PN-3)	1.71	22.34	-	1.78	52.44	-	1.78	52.44	-
Preschool Promise (PSP)	37.09	30.53	-	38.26	108.58	-	38.26	108.58	-
Healthy Families (HFO)	25.73	4.15	-	26.84	10.04	-	28.96	10.04	-
Office of Child Care	1.83	2.13	57.70	1.91	2.22	171.66	1.91	2.22	171.66
DHS - ERDC	-	-	140.09	-	-	5.00	-	-	5.00
DHS - Inclusive Child Care	-	-	1.11	-	-	0.05	-	-	0.05
Baby Promise	-	-	8.75	-	-	0.38	-	-	0.38
Preschool Development Grant (Birth to 5)	-	-	3.10	-	-	17.21	-	-	17.21
Early Childhood Equity Fund (ECEF)	-	10.00	-	-	23.86	-	-	23.86	-
Coaching / Professional Learning	-	7.50	-	-	27.24	-	-	27.24	-
Parenting Education	-	1.00	-	-	4.09	-	-	4.09	-
EL Federal Emergency COVID Funding	-	-	-	-	-	473.76	-	-	473.76
Relief Nurseries	9.41	5.55	-	9.81	9.93	-	11.81	9.93	-
KPI	8.71	-	-	9.09	-	-	9.09	-	-
Early Learning HUBs	15.33	7.02	-	16.29	6.66	-	16.29	6.66	-
Coronavirus Relief Funds of 2020 (CRF)	-	73.80	-	-	-	-	-	-	-
Governor's Emergency Education Relief - ELD	-	-	24.51	-	-	-	-	-	-
Residential & Day Camps Assistance	10.00	-	-	-	-	-	-	-	-
Baker Early Learning Center (Baker SD 5J)	-	-	-	-	1.43	-	-	1.43	-
Childcare Facility Projects	-	6.90	-	-	-	-	-	-	-
Early Childhood Suspension & Expulsion	-	-	-	3.78	-	-	3.78	-	-
Other EL Grants	3.72	1.67	-	9.42	3.97	15.91	9.42	3.97	15.91

Overall, the Early Learning programs experienced significant growth in 2021-23. One issue that will need to be monitored is the ability of the industry and workforce to meet the demand for these services as the programs expand as well as any ongoing effects of the pandemic. Major changes in the Early Learning Grant-in-Aid programs include:

- Various preschool programs were expanded by $68 million Other Funds over CSL from the Fund for Student Success, providing an estimated 4,300 additional preschool slots. Investments were made in Preschool Promise (2,516 slots), Oregon Pre-Kindergarten for ages 3 to 5 (1,400 slots), Oregon Pre-Kindergarten for ages prenatal to 3 (formerly known as Early Head Start) (265 slots), and Healthy Family Oregon (100 slots). The increased number of slots is based on an estimate and will depend on the final number of full-time and part-time programs.

- A separate Tribal Early Learning Hub is established specifically for coordinating and serving the children and families of the nine recognized tribal governments in the state. Just over $600,000 General Fund is included in this budget unit for grants for designing, goal setting and initial costs of the Hub. Additional resources are provided in the Operations component of the ODE budget for a position and related costs.
- An additional $8.4 million in Fund for Student Success resources (Other Funds) is invested in Relief Nurseries ($2 million), Parenting Education ($2 million), Early Learning Equity Fund ($3 million) and for the remodel and renovation of the North Baker School property into a full-service early learning center ($1.4 million).
- $473.8 million Federal Funds is included as the estimated amount of federal COVID related funds that will be spent in Early Learning Grant-in-Aid during the 2021-23 biennium. The largest share of the funding will go to assist childcare providers. The second largest share (most in the 2023-25 biennium) will go for a new Employment Related Day Care (ERDC) co-pay policy. Other uses of this federal funding include provider training and technical assistance, provider supply development, provider rate increases, development of systems (e.g., provider payment system) for the new agency, and administrative costs.
- Funding for the 2021-23 costs of the summer learning initiative passed early in the 2021 legislative session is included -- $9 million General Fund for preschool programing and $15.9 million Federal Funds for the ERDC program, which will be transferred to the Department of Human Services.
- HB 2166 established an Early Childhood Suspension and Expulsion Prevention program with $3.8 million available for future grants to implement the program. Final details on the program still need to be developed and rules must be adopted by the Early Learning Council. For this reason, these funds are unscheduled until the Division reports back to the interim committees or during the February 2022 legislative session. There is also funding the Operations budget for this program along with three positions.

Legislatively Approved Budget

Modest changes made to the Early Learning Division's grant-in-aid program during the 2022 legislative session include $2 million General Fund for Relief Nurseries and $2.1 million General Fund for Healthy Families Oregon for wage supports and to backfill lost federal grant funds.

Youth Development Division Grant-in-Aid

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	13,971,380	14,707,168	14,707,168	20,020,597
Other Funds	10,070,103	14,675,117	14,675,117	21,675,117
Federal Funds	453,500	473,001	1,255,179	1,255,179
Total Funds	**$24,494,983**	**$29,855,286**	**$30,637,464**	**42,950,893**

Program Description

The Youth Development Division was established in 2013 to provide a focal point for youth-related programs and to ensure that services provided to youth through age 24 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 to 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. Other programs include the Youth and Community grants, the Youth and Innovations grants, and the Youth Engagement grants. This last program was created as part of the Student Success Act (2019) and is 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. 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. The Youth Engagement program receives funding from the Statewide Education Initiatives Account of the Fund for Student Success (FSS). 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 do not have a formal local system. Juvenile Crime Prevention grants flow through 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 youth with education and the work force, as well as addressing youth violence and crime. There are currently six general grant streams as part of this programing – Youth and Community grants, Youth and Innovation grants, Gang Prevention grants, Community Schools, Youth reengagement grants and Juvenile Crime Prevention grants.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Youth Development Division's Grant-in-Aid programs is $14.7 million General Fund and $30.6 million total funds. This represents changes from 2019-21 funding levels of 5.3% and 25.1%, respectively. The increase in total funds is generally driven by the roll-up costs of the Youth Reengagement grants from a one-year program in 2019-21 to a two-year program in 2021-23. Funding for the various programs in this budget unit are detailed in the following table.

Youth Development Grant-in-Aid Programs - *dollars in millions*	**2019-21 Legislatively Approved Budget**			**2021-23 Legislatively Adopted Budget**			**2021-23 Legislatively Approved Budget**		
	GF	**OF/FSS**	**FF**	**GF**	**OF/FSS**	**FF**	**GF**	**OF/FSS**	**FF**
Juvenile Crime Prevention	6.11	-	-	6.37	-	1.26	6.37	-	1.26
Gang Prevention & Intervention Grants	0.70	4.83	-	0.81	-	-	0.81	-	-
Youth Reengagement (HB 5047)	-	73.80	-	-	8.34	-	-	8.34	-
Youth & Community	3.82	-	24.51	3.99	6.07	-	3.99	6.07	-
Youth & Innovation	3.29	-	-	3.43	-	-	3.43	-	-
Community Schools	0.05	-	-	0.11	-	-	0.11	-	-
Other Small Grants/Empty Limitation	-	-	-	-	0.26	-	5.31	7.26	-

The only change from CSL was an increase in Federal Funds expenditure limitation reflecting an increase in funding from the Juvenile Justice Title II programs.

Legislatively Approved Budget

The 2021-23 legislatively approved budget for the Youth Development Division's Grant-in-Aid programs is $20 million General Fund and $43 million total funds, a 40.2% increase over the legislatively adopted budget. The Future Ready Oregon program (SB 1545) appropriated $3.3 million General Fund and $7 million Other Funds expenditure limitation for increasing access to youth workforce programs; and SB 5561 (2021 second special session) appropriated $2 million General Fund on a one-time basis for the East Metro Outreach, Prevention, and Intervention program operated by the City of Gresham.

School Facilities and Debt Service

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	31,114,252	48,238,961	46,948,950	46,715,272
Lottery Funds	692,870	0	0	0
Other Funds	255,028,846	0	298,000,330	298,234,015
Total Funds	**$286,835,968**	**$48,238,961**	**$344,949,280**	**344,949,287**

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 of the General Fund represents the debt service required to pay off 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 of the Other Funds expenditure limitation represents bond proceeds which are paid to districts as grants or special payments. These bond proceeds are authorized with two-year expenditure limitation, so new expenditure limitation must be approved for any unspent proceeds from a previous biennium. The amount for 2021-23 for this is $150 million. Staffing for this program is through the Office of School Facilities and is part of the Operations budget unit. In addition, Article XI-Q bonds have been issued for deferred maintenance and improvements at the Oregon School for the Deaf.

The Lottery Funds shown in the table for the 2019-21 biennium paid 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 were now entirely paid off during the 2019-21 biennium.

In the 2021-23 legislatively adopted budget there is $17.5 million in Lottery Bond proceeds which was deposited in the Connecting Oregon School Fund (COSF) for improved broadband coverage, expanding Internet connectivity in schools, and maximizing the use of available federal resources through the E-Rate program. This federal program provides funding (generally between 60% and 80% of project costs) for new or improved existing Internet connectivity for schools. ODE will provide additional grants to school districts from the COSF for up to 10% of project costs to further leverage federal funding. In many cases, the additional state grant resources and federal funding will pay for an entire project without any local contribution from the district.

Revenue Sources and Relationships

In the past, Lottery Funds in this budget unit were interest earnings generated from the Education Stability Fund (ESF) and were used for debt service. In the past, 75% of such ESF earnings were directed to this purpose, but as 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 2021-23 legislatively adopted General Fund budget of $46.9 million represents the payments required for debt service on previously issued Article XI-P bonds for the OSCIM program and Article XI-Q bonds for the School for the Deaf. The budget has been adjusted to reflect the latest projections of interest earnings and biennial payment obligations.

The Other Funds expenditure limitation of $298 million includes $125 million for newly approved XI-P bonds proceeds under the OSCIM program and the estimated $150 million in grants paid out to school districts from bond proceeds approved in previous biennia. Accessibility and other projects at the Oregon School for the Deaf accounts for $5.5 million Other Funds expenditure limitation. The remaining $17.5 million in Other Funds limitation is the broadband program described above funded through the issuance of Lottery Bonds.

Legislatively Approved Budget

An adjustment between General Fund debt service and Other Funds debt service resulted in a net increase to Other Funds debt service expenditure limitation of $7.

Common School Fund Distributions

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	116,260,269	$133,059,086	$133,059,086	133,059,086
Total Funds	**$116,260,269**	**$133,059,086**	**$133,059,086**	**133,059,086**

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 funds 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, and they are now considered local revenues for the purposes of the school funding 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 2021-23 legislatively adopted budget of $133.1 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: Neburka

Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	7,568,496,644	7,880,635,408	7,988,195,518	7,890,603,299
Lottery Funds	730,467,530	370,466,870	589,526,746	650,508,965
Other Funds	701,035,826	746,359,000	722,277,736	758,887,736
Total Funds	**$9,000,000,000**	**$8,997,461,278**	**$9,300,000,000**	**$9,300,000,000**

Program Description

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

The largest expenditures from the SSF are for distribution through the equalization formula to 197 school districts (95.5% of the net distribution) and 19 ESDs (4.5% of net distribution). These distributions include pass-through funding to charter schools. Certain statutorily defined distributions, or "carve-outs", are made from the SSF prior to those for school districts and ESDs; and include the High Cost Disabilities Account, facilities grants, English Language Learners grants, School Nutrition grants, ESD testing or assessment contracts, 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 and treatment facilities and hospitals. A new carve-out was established by HB 3294 (2021) for funding the distribution of menstrual products in schools.

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 for which the state may provide "equalization" assistance 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 $4.8 billion of federal and state funding through the grant-in-aid programs for various purposes including: child nutrition, special education, specialized education initiatives, professional development, and compensatory education. This amount includes the new funding available through the Student Success Act. This grant-in-aid total includes over $1.2 billion in COVID related federal funding.

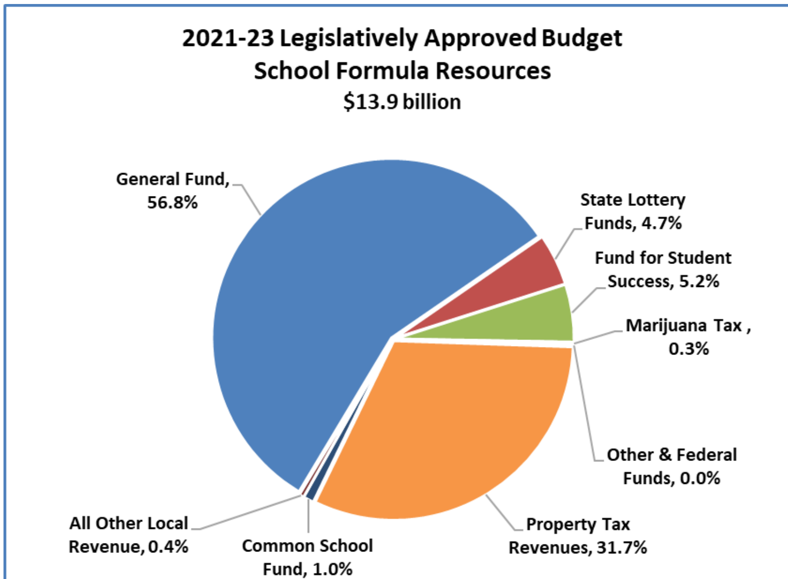
Revenue Sources and Relationships

In 1990, voters approved Ballot Measure 5 that significantly 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 primary school system and significantly limited local control over school funding levels. For 2021-23, the estimated SSF or state share of the distribution amount through the equalization formula for school districts and ESDs represents 66.9% (including carve-outs and distributions) with various local revenues representing the remaining 33.1%. Prior to Measure 5, the state and local percentages were reversed, with the state share representing, on average, about 30%.

The major fund sources for the SSF budget are General Fund and Lottery Funds. Beginning in 2019-21, Other Funds sources have increased, and now include receipts from the state timber tax, donations of kicker rebates, expenditure limitation for Local Option Equalization grants, Marijuana Tax resources, and $685.7 million from the new Fund for Student Success. The largest share of this amount, or $645.7 million, represents the estimated amount of General Fund resources lost due to income tax rate reductions and other tax changes made by the Student Success Act (HB 3427, 2019). This amount varies with each state revenue forecast and the numbers in the legislatively adopted budget reflect the June 2021 forecast. The remaining amount represents a $40 million biennial increase for the High Cost Disabilities Account. Marijuana Tax revenues are expected to decrease to $36 million for 2021-23, the result of the passage of Ballot Measure 110 which limits the amount of these revenues dedicated to the SSF. In 2019-21, Marijuana Tax revenues accounted for over $100 million of the SSF.

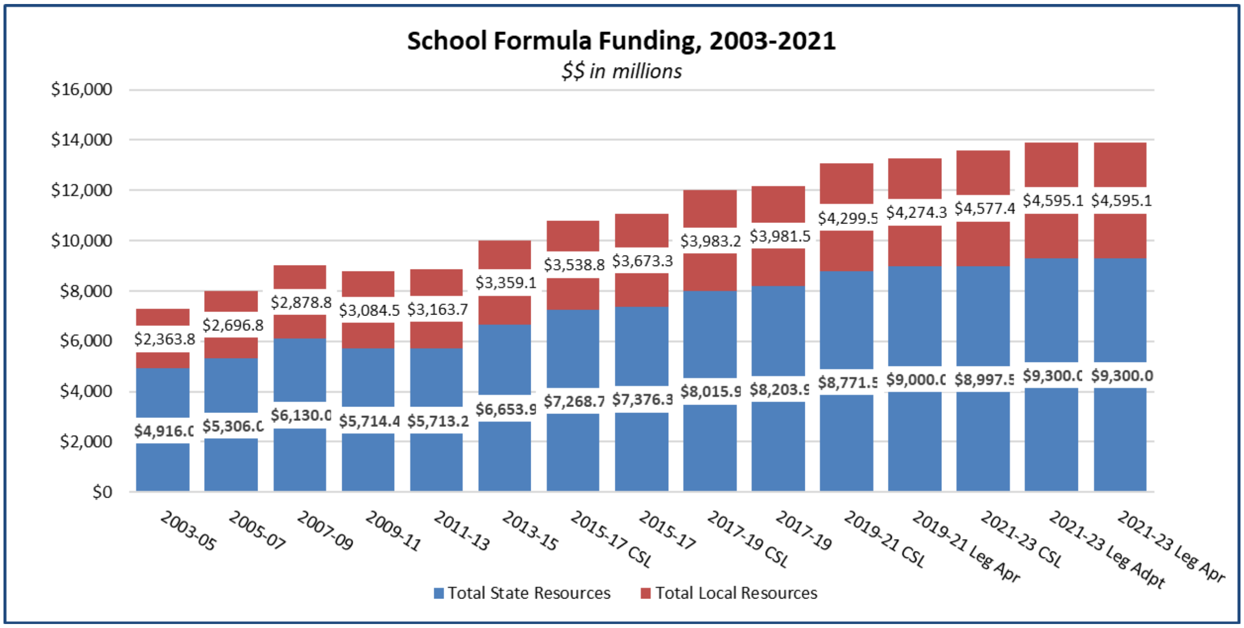
The chart to the right demonstrates the various state and local resources that are part of the calculation of the formula distribution for 2021-23, which totals $13.9 billion. The overall state share decreases slightly from 67.8% for 2019-21 to 66.9% for 2021-23.

In a biennium when General Fund and other resources are scarce, there are two other resources that may be accessed for school funding. The Education Stability Fund, which originates as Lottery Funds, was accessed for the SSF during the 2007-09, 2009-11, 2011-13, and 2019-21 biennia. The Oregon Rainy Day Fund (General Fund) was used for the SSF in 2009-11. Neither budget stabilization funds are included in the 2021-23 legislatively approved budget.



State Share = $9.3 billion, or 66.9% of total formula resources. Includes statutory carve-outs and other statewide distributions.

As noted above, the bulk 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 chart below provides historical context of the state/local revenue mix.



Budget Environment

Currently, there are 197 elementary and secondary school districts and 19 education service districts, serving about 547,000 students in grades K-12 as of February 2022. Overall, weighted ADM or ADMw is estimated at approximately 675,000. Student populations fell statewide during the COVID-19 pandemic, and the extent to which school populations will recover is currently unknown.

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 including the Student Success Act revenues, and other resources. Based on the QEM 2020 report, the 2019-21 legislatively approved budget's SSF amount of $9.0 billon was $1.77 billion, or 19.7%, short of funding Oregon's educational goals. For the 2021-23 biennium, this gap falls as a full biennium of the new Student Success Act resources are factored into the calculation. The 2020 report estimates the gap falling to just under $833.6 million, or 9.1%, for 2021-23. This is based on the current service level funding of the SSF of $9.0 billion; the $9.3 billion legislatively approved budget for the SSF further decreases that gap. The percentage gap has steadily decreased from 2011-13, when it was estimated to be 38.0%.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the SSF is $9.3 billion total funds ($7.988 billion General Fund, $589.5 million Lottery Funds, and $722.3 million Other Funds) which makes up the state portion of the amount distributed to school districts and ESDs through the school funding formula. This 2021-23 SSF budget represents a $300 million (3.3%) increase in total funds over the 2019-21 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.

Estimated 2021-23 State School Fund & Local Revenues Estimated Distribution *Millions of Dollars*				
State School Fund -- Includes General Fund, Lottery Funds, state timber tax, dedicated Marijuana tax, and transfers from the Fund for S				**9,300.0**
Less Selected Set-Asides & Carve-outs & Reserve Accounts				**(118.1)**
Small School Supplement - 327.008(19)			(5.00)	
Talented & Gifted - 327.008(15)			(0.35)	
Speech Pathologist - 327.008(16)			(0.15)	
Virtual School District - SB 5514 (2021)			(1.60)	
Long-term Treatment & OSD - 343.243			(26.00)	
Educator Advancement Council - 327.008(12)			(6.26)	
Local Option Equalization - 327.339			(4.00)	
Pediatric Nursing Facilities - 327.008(10)			(5.15)	
English Language Learners - 327.008(13)			(12.50)	
Charter Schools Closure Funds - 327.008(3)			(0.60)	
Nutrition Related - SB 5514 (2021)			(2.85)	
Office of Educational Facilities - 327.008(9)			(8.00)	
Menstrual Hygiene - 327.008(18)			(5.60)	
Reserve Account (distributed to districts later in biennium)			(40.00)	
Estimated Local Formula Revenues (LRO March 2021 Estimate)				**4,595.1**
Net Property Taxes			4,401.65	
Common School Fund			133.98	
County School Fund			17.98	
State Managed Timber			41.55	
All Other			-	
Total Amount to be Distributed to School Districts and ESDs				**13,777.1**
School District Share (95.50%)			13,127.91	
Education Service Districts (4.5%)			649.18	
School District Distribution				
Total Amount Available	13,127.9			
Less Current High Cost Disability Grants	(70.0)			
Less Additional High Cost Disability from the Fund for Student Success	(40.0)			
Less Facilities Grants	(7.0)			
Less School District Share of Educator Advancement Council	(17.5)	*Grows at rate equal to SSF growth*		
Formula Revenue for Distribution to School Districts		**12,993.4**		
Education Service District Distribution				
Total Amount Available	649.2			
Less 10th Grade Assessment	(1.1)			
Less ESD share of Educator Advancement Council	(17.5)	*Grows at rate equal to SSF growth*		
Formula Revenue for Distribution to ESDs		**630.6**		

There were limited changes to the school funding formula during the 2021 legislative session, including the two-year roll-up from the $20 million increase for the High Cost Disability funded from the Fund for Student Success to a total of $40 million for 2021-23 and the establishment of a new carve-out for the costs of HB 3294 relating to the distribution of menstrual hygiene products. This new carve-out is estimated to be $5.6 million for 2021-23.

Legislatively Approved Budget

During the 2022 legislative session, the mix of state revenues supporting the State School Fund was rebalanced, with no net change to the total amount of $9.3 billion in state support for schools.

HIGHER EDUCATION COORDINATING COMMISSION

Analyst: To

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,158,565,086	2,308,323,047	2,491,512,552	2,657,846,371
Lottery Funds	142,162,801	154,364,240	122,327,240	139,873,506
Other Funds	404,918,915	83,892,780	656,127,668	812,248,461
Other Funds (NL)	961,514,999	165,177,280	154,855,686	154,855,686
Federal Funds	128,146,326	128,335,403	130,597,522	131,016,933
Federal Funds (NL)	19,689,647	20,536,302	20,536,302	24,544,456
Total Funds	**3,814,997,774**	**$2,860,629,052**	**$3,575,956,970**	**$3,920,385,413**
Positions	144	147	152	180
FTE	134.91	138.07	143.36	160.87

Overview

With the passage of SB 712 (2021), the Higher Education Coordinating Commission (HECC) is a 15-member commission appointed by the Governor and confirmed by the Senate. Its primary focus is strategic planning for the entire public post-secondary education system in the state. Other responsibilities include: (1) developing goals and accountability measures for the post-secondary system; (2) developing a strategic plan; (3) developing a finance model and distribution formulas for post-secondary education (public universities and community colleges) based on the strategic plan; (4) administering financial aid programs; (5) leading the state's efforts around workforce development; and (6) approving and authorizing degrees for the public universities and programs at community colleges.

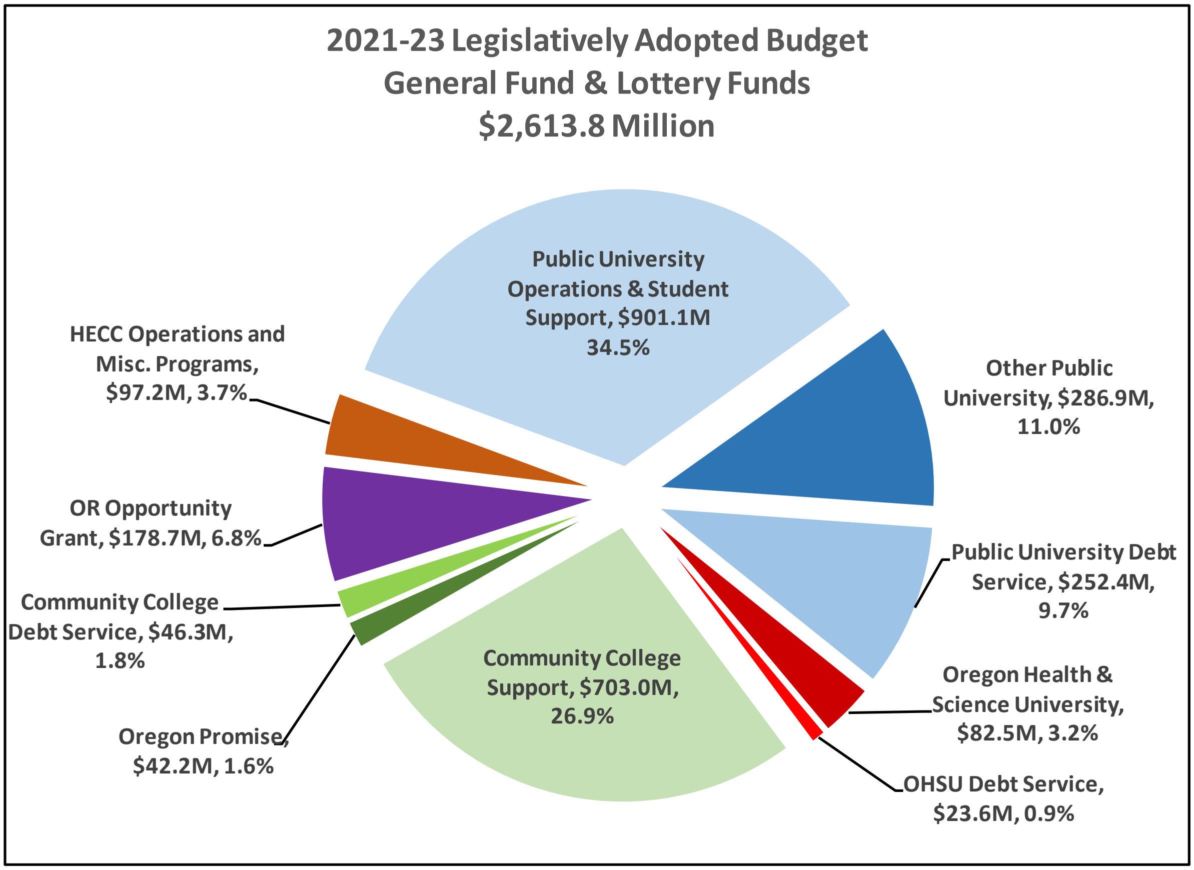
The passage of SB 270 and HB 3120 in 2011 and 2013 respectively added several duties to HECC's portfolio. The Commission took over responsibilities of the State Board of Education relating to the community college system, as well as assumed the responsibilities of the Oregon Student Access Commission (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 and their budgets [the Office of Degree Authorization (ODA), the Private Career School (PCS) program, and the Oregon Volunteers Commission] have also been transferred to HECC. During the same period, the public universities were given more independent authority to operate their institutions and the statewide Oregon University System or OUS was eliminated.

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 among the individual institutions. This is not the case for OHSU. Below is a table that divides the 2021-23 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.

Higher Education Coordinating Commission (HECC) Legislatively Adopted Budget

2021-23 Legislatively Adopted Budget -- Millions of Dollars

	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds
HECC Staff, Operations and Other Programs	97.1	-	80.3	130.6	0.2	20.5	328.8
State Support to Public Universities	1,342.1	98.2	455.4	-	152.0	-	2,047.8
State Support to Community Colleges	779.8	11.8	68.2	-	-	-	859.8
State Support to Oregon Health Sciences University	106.0	-	30.9		2.6		139.6
Oregon Opportunity Grant	166.4	12.3	21.3				200.0
Totals	2,491.5	122.3	656.1	130.6	154.9	20.5	3,576.0



<u>Legislatively Adopted Budget</u>

The 2021-23 combined General Fund and Lottery Funds legislatively adopted budget of $2.614 billion is $313.1 million (or 13.6%) greater than the 2019-21 legislatively approved budget. The growth is due to several factors including growth in the Public University Support Fund and Community College Support Fund, several new initiatives including part-time faculty health insurance and new work force programs for youth, and an expansion of the Oregon Opportunity Grant. Overall, the 2021-23 total funds budget is 3.576 billion, a decrease of 239 million (6.3%) from the 2019-21 legislatively approved budget. Comparing total funds changes across biennia is more difficult given the effect that changes in capital construction expenditure limitation has on the budget. Much of the loss in total funds budget for 2021-23 is due to the refunding of existing bonds issued on behalf of public universities and community colleges. If these non-limited bond refinancing expenditures are factored out, the total funds growth would have been almost 20% greater for 2021-23. Detailed information on the budget is included in the following information on the various budget units of the overall HECC budget.

<u>Legislatively Approved Budget Update</u>

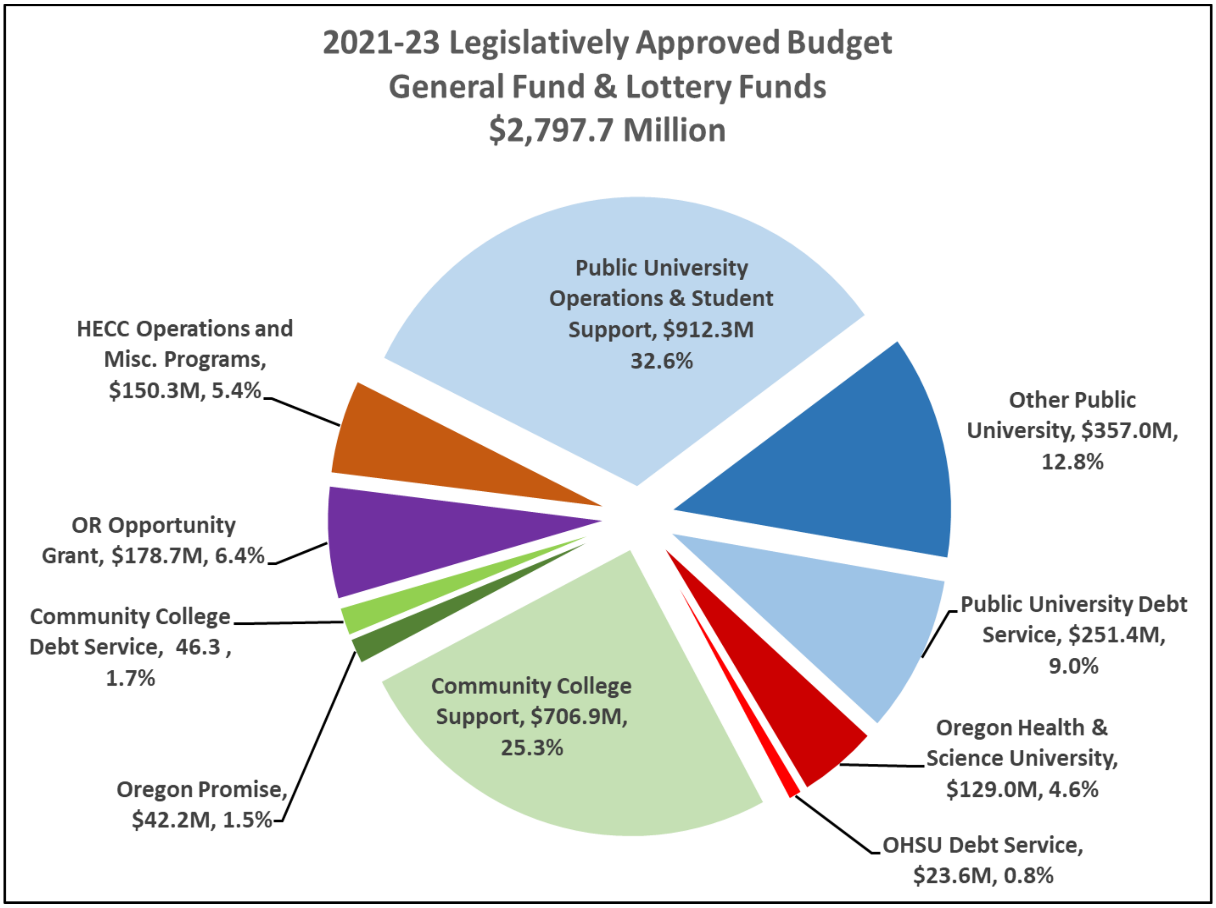
The 2021-23 combined General Fund and Lottery Funds legislatively adopted budget of $2.798 billion is $183.9 million, or 7%, greater than the 2021-23 legislatively approved budget. The growth is due mainly to investments in workforce education and development via SB 1574, recruitment and retention of childcare providers, and General Fund cash investments in capital construction and rural infrastructure projects for various public universities and community colleges.

Below are tables that divides the HECC 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 updated with actions approved in the 2021 second special session and 2022 session.

Higher Education Coordinating Commission (HECC) Legislatively Approved Budget

2021-23 Legislatively Approved Budget -- Millions of Dollars

	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds
HECC Staff, Operations and Other Programs	150.3	-	200.7	131.1	0.2	20.5	502.8
State Support to Public Universities	1,422.5	98.2	490.5	-	152.0	4.0	2,167.2
State Support to Community Colleges	783.6	11.8	68.2	-	-	-	863.6
State Support to Oregon Health Sciences University	152.6	-	31.6		2.6		186.8
Oregon Opportunity Grant	148.9	29.8	21.3				200.0
Totals	2,657.9	139.8	812.3	131.1	154.8	24.5	3,920.4



Staffing, Operations, and Other Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	43,044,384	51,408,483	97,124,386	150,318,162
Other Funds	52,246,808	33,574,080	80,326,197	200,721,399
Other Funds (NL)	206,000	206,000	206,000	206,000
Federal Funds	128,146,326	128,335,403	130,597,522	131,016,933
Federal Funds (NL)	19,689,647	20,536,302	20,536,302	20,536,302
Total Funds	**$243,333,165**	**$234,060,302**	**$328,790,407**	**$502,798,796**
Positions	144	147	152	180
FTE	134.91	138.07	143.36	160.87

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 and the Oregon Promise programs. 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.
- Academic Policy – 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 degrees from a base outside of the state. In addition, this office licenses career schools, approves their programs, and investigates complaints regarding these schools, while also reviewing new public post-secondary programs for Commission approval.
- Post-secondary Finance – Provides oversight of the state's public universities and is responsible for distribution and monitoring of operating and capital spending by the seven public universities and 17 community colleges.
- Office of Community Colleges – Manages state responsibilities related to community college programs 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.
- Workforce Investments – Includes resources that are paid to other entities under the federal 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 as General Fund which funds Work Ready Communities, Back to Work Oregon, the Supporting Sector Strategies program, and other programs. 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, Oregon Promise Program, over 400 private scholarships and grant programs, and a series of smaller financial assistance programs. This area of the budget does not include the direct resources paid out from the Oregon Opportunity Grant and the Oregon Promise program. The non-staff budgets for these two programs are found separately or as part of the Community College Support area. The Access to Student Assistance Programs in Reach of Everyone (ASPIRE) is included in this budget area. ASPIRE 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.

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 and other 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 204 schools regulated by the Private Career Schools (PCS) program (e.g., cosmetology, truck driving, and real estate related schools). Thirteen schools closed in the past two years while 24 new schools opened. HB 5025 (2019) provided authorization for HECC to continue 30% increases in fees in both 2017 and 2019 that are charged to PCS regulated schools. These increases were required as General Fund support for PCS regulation was discontinued. There are 21 in-state degree-granting schools regulated by the Office of Degree Authorization (ODA) and 52 out-of-state schools. A further 32 schools are part of a 32 State Authorization Reciprocity Agreement bringing the number of regulated schools to 105. 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.

HECC continues to build its infrastructure including continuing efforts of the former component agencies. One major project is the replacement of the Financial Assistance Management Information System (FAMIS) for the student aid programs including the Oregon Opportunity Grant. Sensitive and confidential information is accessed and maintained by the current system, and data security is an important issue. The initial stages for this program have been under way for years; and for at least the third time, funding was requested by the agency for 2021-23. The agency is now moving forward and $5 million in Article XI-Q bonds were approved in the 2021-23 budget to fund the replacement of FAMIS.

The ASPIRE program anticipates that there will be 155 sites for 2021-22 (135 high schools and 20 middle schools) growing to 170 sites for 2022-23 (146 high schools and 24 middle schools). HECC believes this is a conservative estimate as they try to increase the number of sites. The number of sites have varied significantly annually 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 and becoming eligible for federal financial aid.*

The 2018 Legislature passed HB 4035 establishing the Oregon National Guard State Tuition Assistance program (ONGSTA). The program provides funding for tuition for up to 90 credits at community colleges and 180 credits at public universities for active members of the Oregon National Guard. The program provides grants toward a participant's tuition balance minus any Department of Defense Federal Tuition Assistance the service member may receive. Initial participation in the program was small, with only 81 student receiving assistance in the Fall term of 2018. Participation has grown with 265 in 2019-20, 461 for 2020-21 and 218 anticipated for 2021-22. Since this is a relatively new program, ongoing demand for the program is hard to estimate. Factors contributing to this difficulty are Oregon National Guard (ONG) marketing, ONG deployments, and ONG member eligibility. If program resources are not sufficient to meet the demand in the 2022-23 academic year, the Commission may have to limit funding received by participants.

The agency has been challenged in determining the funding of central services, a legacy of combining various sperate agencies and programs brought together to create HECC. This process includes the need for a federally approved indirect cost rate in determining the funding mix between various fund types for various central agency costs, including State Government Service Charges and many of the staffing and related costs in the Director's Office, Central Operations, and Research and Data units. When the 2019-21 budget was developed, the agency lacked a federally approved indirect cost allocation plan, and overly generous assumptions were made about the amount of Other and Federal Funds that could be used to pay for many of HECC's staff and operational costs. The indirect cost allocation plan was not approved until the Fall of 2020, and the rate that was approved was much lower than what had been assumed during the development of the budget. Early in 2021 session, the Legislature approved just under $5 million General Fund to backfill the missing revenues from 2019-21 indirect rate changes and other factors. Further work was on the indirect rate was done for the 2021-23 budget, which will necessitate continued monitoring during the biennium.

Legislatively Adopted Budget

HECC Staffing, Operations and Other Programs

2021-23 Legislatively Adopted Budget -- Millions of Dollars

	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds	Positions	FTE
Director's Office	22.6	-	13.1	0.6	-	-	36.3	13.0	13.00
Central Operations	12.3	-	5.1	2.3	-	-	19.7	36.0	34.92
Research and Data	3.1	-	3.3	0.4	-	-	6.8	15.0	14.25
Academic Policy	1.6	-	8.2	-	0.2	-	10.0	13.0	11.24
Post Secondary Finance	1.9	-	7.0	-	-	-	8.9	5.0	5.00
Community College Staff	7.2	-	11.1	12.6	-	-	30.9	19.0	16.95
Workforce Investment Staff and Programs	33.5	-	14.9	114.5	-	20.5	183.5	27.0	26.50
OR Student Access and Community Completion (OSAC)	15.0	-	17.7	0.1	-	-	32.8	24.0	21.50
Totals	97.1	-	80.3	130.6	0.2	20.5	328.8	152.0	143.36

The 2021-23 legislatively adopted budget of $97.1 million General Fund and $328.8 million total funds represents a $54.1 million, or 125.6%, General Fund increase and an $85.5 million, or 35.1%, total funds increase over the 2019-21 legislatively approved budget.

Major changes in the 2021-23 adopted budget include:

- SB 551 authorized part-time faculty members (not family members) working at public universities and community colleges to receive up to 90% of the cost of health insurance paid by the State for faculty member only coverage. $12.9 million General Fund was added to pay the costs of this new insurance coverage. Restrictions on eligibility including the faculty must be working at least half of a full-time equivalent employee at one or more public post-secondary institutions. Each eligible faculty member must identify a "home" institution for participation in the program and the $12.9 million General Fund will be used to reimburse the "home" institution for the 90% share of costs of providing the health insurance. The same amount of Other Funds expenditure limitation was approved since the General Fund resources were deposited into the Part-time Faculty Insurance Fund and reimbursements to "home" institutions will be made as Other Funds expenditures.
- HB 2835 established a "Benefits Navigator" at each public university and community college to assist students with applying for and receiving needs-based financial assistance. A total of just under $5 million General Fund was appropriated for distribution to the institutions for the costs of the program. Each institution must agree to participate in a statewide consortium to develop best practices and facilitate communication to receive funding.
- Two positions (2.00 FTE) were added in the Director's Office at a cost of $540,831 General Fund to increase the efforts of the agency around leadership, support and sustainability of diversity and equity in the post-secondary education area.
- To increase the financial and other administrative staffing resources, one budget position and one accounting position was added. At the same time, the Administrative Services Director position was restored which had been eliminated during the August 2020 second special session. The total cost for these three positions (2.92 FTE) was $1 million total funds, $878,447 of which was General Fund.
- $5 million Other Funds expenditure limitation funded with the proceeds of Article X-I bonds was approved for the Financial Assistance Management Information System (FAMIS). As noted above this system is required to meet the data security needs as well as modernizing the existing system including greater web access for students seeking financial aid. General Fund debt service resources of $867,805 was also provided since this project is schedule to get underway early in the biennium.

- $8.6 million General Fund was approved for deposit into the Oregon Youth Employment Fund which will be distributed to local workforce development boards and other entities serving youth for the Youth Employment program. This is the first General Fund support for this program in a long time. Two positions (1.50 FTE) were funded to bring the total cost of the initiative to $9 million.
- SB 762 established the Oregon Wildfire Workforce Corps program with the stated purpose of reducing the risk of wildfires to communities and critical infrastructure. A total of $11.6 million General Fund was appropriated for the program, with $10 million available for grants to protect at-risk communities within the wildland-urban infrastructure, $1 million for matching private donations to the Oregon Wildfire Workforce Corps program, and $643,668 for the staff and related costs for three positions (3.00 FTE) to administer the Oregon Wildfire Workforce Corps program.
- $550,534 General Fund was added to implement technology and systems to support a web-based transfer portal to provide a streamlined pathway for student transfers between community colleges and public universities. This new funding continues efforts underway since the passage of HB 2998 in 2017 to complete this work.
- SB 233 requires HECC to provide staff and other support toward the establishment of a common course numbering system for introductory and lower-level courses at public universities and community colleges. A portion of the $831,429 General Fund will fund three positions (1.75 FTE) and a portion of the remainder ($428,000) will be for a contract to perform a variety of functions including initial work on an electronic transfer system.
- A total of $5 million General Fund is for grants to five programs to assist college-going individuals or those considering post-secondary educations. The programs are the; (1) ASPIRE program administered by HECC, (2) College Possible, (3) Orgon TRIO Association, (4) Advancement via Individual Determination or AVID, and (5) Build EXITO. Some of these programs are designed to serve under-representative students.

<u>Legislatively Approved Budget Update</u>

HECC Staffing, Operations and Other Programs

2021-23 Legislatively Approved Budget -- Millions of Dollars

	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds	Positions	FTE
Director's Office	24.2	-	13.3	0.6	-	-	38.1	16	14.89
Central Operations	13.2	-	5.5	2.6	-	-	21.3	42	38.70
Research and Data	3.1	-	3.7	0.4	-	-	7.2	17	15.51
Academic Policy	1.8	-	9.2	-	0.2	-	11.2	14	11.87
Post Secondary Finance	1.9	-	7.2	-	-	-	9.1	5	5.00
Community College Staff	31.3	-	11.1	12.6	-	-	55.0	20	17.58
Workforce Investment Staff and Programs	59.7	-	129.1	114.7	-	20.5	324.0	41	35.32
OR Student Access and Community Completion (OSAC)	15.1	-	21.6	0.1	-	-	36.8	25	22.00
Totals	150.3	-	200.7	131.0	0.2	20.5	502.7	180.0	160.87

The 2021-23 legislatively approved budget of $150.3 million General Fund and $502.7 million total funds represents a $53.2 million, or 54.8%, increase in General Fund and $120.4 million, or 149.9%, increase in Other Funds over the 2021-23 legislatively adopted budget. The approved budget also includes an increase of 28 positions (17.51 FTE). Most of the increase is due to investments in workforce education and development via SB 1574, as detailed below along with other adjustments and investments approved in the 2021 second special session and 2022 session:

- $1 million Other Funds limitation to facilitate the pass through of dollars to public university educator preparation programs for the planning, tracking, and reporting on the progress of achieving the state goal that the teacher candidate pool will reflect the linguistic and ethnic diversity of the high school graduating class from which they are recruited; and $3.8 million Other Funds for HECC to collaborate with the Oregon Department of Education (ODE) and Educator Advancement Council (EAC) to award scholarships to culturally and linguistically diverse teacher candidates as part of the Oregon Teachers Scholars Program (OTSP). These funds were appropriated by the Legislature to ODE and EAC in the Statewide Education Initiatives Account for these efforts. Although HECC was authorized to enter into an interagency agreement with ODE/EAC to distribute funds for the equity plans and to award the scholarships pertaining to OTSP, expenditure limitation was inadvertently omitted in SB 5528 (2021), the primary budget bill for HECC. The total $4.8 million Other Funds increase in limitation corrects the error.

- SB 1522 (2022) increased eligibility for the Oregon Promise program and provided $136,667 General Fund and added one permanent full-time Program Analyst position (0.50 FTE) for the Office of Student Access and Completion to manage increased caseload for the program resulting from three reforms intended to improve affordability and access to education. These reforms included: increasing the minimum award amount for the lowest income students from $1,000 to $2,000, adjusted for inflation and based on the average cost of tuition at a community college; removing the $50 per term co-pay requirement for grant recipients; and reducing the earned cumulative grade point average from 2.5 to 2.0 or better.
- SB 1545, also known as Future Ready Oregon, appropriated General Fund and directed federal ARPA monies to five agencies to administer workforce development programs. HECC was given $52.4 million General Fund, $115 Other Funds expenditure limitation (ARPA Funds as Other Funds), and 27 limited duration positions (17.01 FTE) for use in establishing and administering the following workforce development programs:
  - Prosperity 10,000 Program - $15 million General Fund and $20 million Other Funds for the purpose of distributing funds to distribute to local workforce boards for provision of workforce development services and wraparound supports to 10,000 program participants.
  - Career Pathways - $14.9 million General Fund to expand a program to distribute grant funds to community colleges for the development of post-secondary career pathway training programs designed for individuals in priority populations to obtain necessary skills for job or career advancement in high wage, high-demand industries and occupations.
  - Prior Learning Credit - $10 million General Fund to expand capacity for the credit for prior learning program by awarding grants to community colleges and universities working toward increasing opportunities for students from priority populations to receive academic credit for prior experience or skills gained outside of traditional higher education institutions.
  - Workforce Ready Grants - $10 million General Fund and $85 million Other Funds to establish a program awarding grants to workforce service providers and community-based organizations administering workforce programs in the health care, manufacturing and technology industry sectors and prioritizing equitable program participation by individuals from priority populations.
  - Industry Consortia - $1 million General Fund to convene industry consortia representing health care, manufacturing, and technology industry sectors with the goal of establishing strategic partnerships, setting mutual goals, identifying industry-specific workforce needs, developing targeted recruitment strategies for individuals in priority populations, and promoting workforce development programs and activities
  - Workforce Benefits Navigators - $10 million Other Funds to establish the Workforce Benefits Navigator program to award grants for pilot projects implemented by local workforce development boards. The boards will partner with comprehensive one-stop centers or community-based organizations to employ a workforce benefits navigator to connect individuals from priority populations to workforce programs and increase their access to workforce services and benefits.
  - Assessment and Accountability - $1.5 million General Fund for the purpose of conducting assessments and ensuring accountability of newly established workforce grant programming

State Support to Public Universities (Combined Totals)

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,202,974,640	1,283,540,428	1,342,124,421	1,422,478,230
Lottery Funds	90,885,159	99,265,110	98,218,977	98,218,977
Other Funds	269,812,784	4,101,340	455,445,925	490,476,345
Other Funds (NL)	955,074,983	162,334,350	152,018,158	152,018,158
Federal Funds (NL)	4,597,230	0	0	4,008,154
Total Funds	**$2,523,344,796**	**$1,549,241,228**	**$2,047,807,481**	**$2,167,199,864**

Program Description

Oregon's seven public universities are the University of Oregon, Oregon State University, Portland State University, Eastern Oregon University, Western Oregon University, Southern Oregon University, and the Oregon Institute of Technology. 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 overseeing all seven state universities. 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 public universities were redefined as non-state agencies for purposes of many state statutes and constitutional provisions, and the seven institutions were reclassified as public universities with separate governing boards. OUS as a governing entity was eliminated. While HECC provides some statewide coordination of the public universities and performs minimal academic oversight functions, the separate governing boards have the authority to manage their respective institutions, including setting tuition, hiring the university president and incurring debt.

Revenue Sources and Relationships

The change to non-state agency status exempted the public universities from many laws that govern state agency operations, including the need to request authority to spend Other Funds revenues such as tuition or Federal Funds such as federal research resources, 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 including tuition and position counts are not counted as part of the state budget. It should be noted that some Other Funds and Federal Funds expenditures related to bonding are included in the state budget, since they are debt instruments pledged with the full faith and credit of the State.

State support to the seven public universities is provided through a number of programs and functions. The following table includes program funding for the 2021-23 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 voter approved 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.

Legislatively Adopted Budget

State Support for Public Universities

2021-23 Legislatively Adopted Budget -- Millions of Dollars

	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds
Public University Support Fund	901.1	-	3.5	-	-	-	904.6
Public University State Programs	61.9	-	-	-	-	-	61.9
Agricultural Experiment Station	87.6	-	-	-	-	-	87.6
Extension Service	59.4	49.4	-	-	-	-	108.8
Forest Research Laboratory	12.1	-	-	-	-	-	12.1
Sports Lottery	-	16.5	-	-	-	-	16.5
Debt Service	220.1	32.3	6.0	-	152.0	-	410.4
Capital Construction			445.9	-	-	-	445.9
Total State Support for Public Universities	1,342.2	98.2	455.4	-	152.0	-	2,047.8

At the end of the 2021 legislative session, State General Fund support for the public universities in the 2021-23 biennium totals $1,342.2 billion and Lottery Funds totals an additional $98.2 million. General Fund and Lottery Funds support represents an increase of $146.5 million, or11.3%, over the 2019-21 legislatively approved budget. Total funds for the same period decrease by $475.5 million, or 18.8%, primarily due to the significant amount of refunding of bonds that occurred during 2019-21.

Legislatively Approved Budget Update

State Support for Public Universities

2021-23 Legislatively Approved Budget -- Millions of Dollars

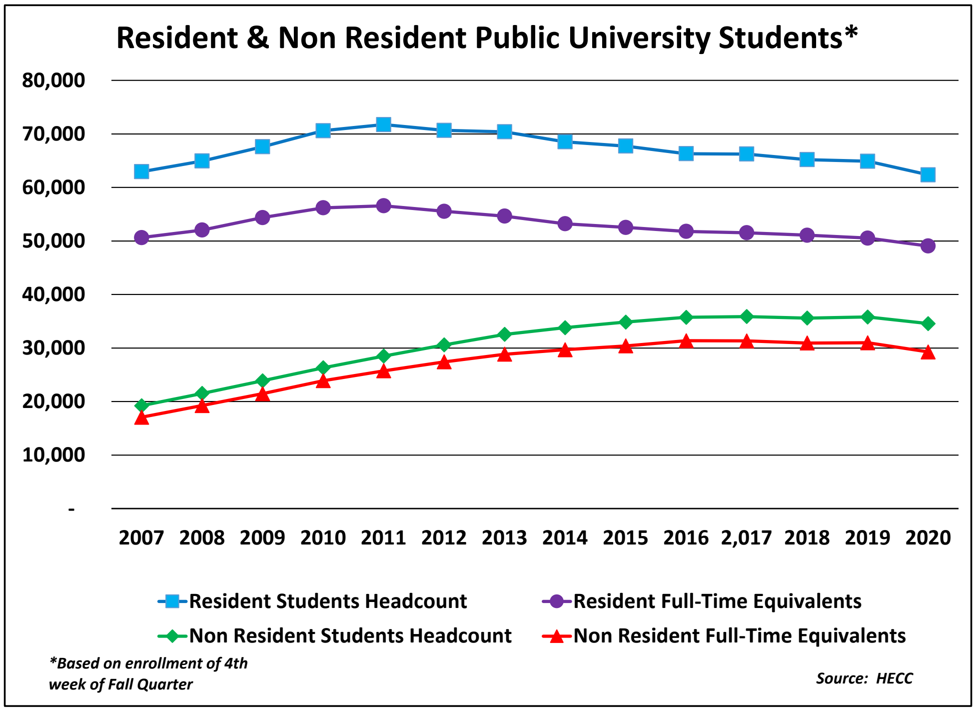
	General Funds	Lottery Funds	Other Funds	Federal Funds	Other Funds NL	Federal Funds NL	Total Funds
Public University Support Fund	912.3	-	7.5	-	-	4.0	923.8
Public University State Programs	129.5	-	-	-	-	-	129.5
Agricultural Experiment Station	87.6	-	-	-	-	-	87.6
Extension Service	61.9	49.4	-	-	-	-	111.3
Forest Research Laboratory	12.1	-	-	-	-	-	12.1
Sports Lottery	-	16.5	-	-	-	-	16.5
Debt Service	219.1	32.3	7.0	-	152.0	-	410.4
Capital Construction			475.9	-	-	-	475.9
Total State Support for Public Universities	1,422.5	98.2	490.4	-	152.0	4.0	2,167.1

At the end of the 2022 legislative session, State General Fund support for the public universities in the 2021-23 biennium totals $1,422.5 billion and Lottery Funds total remained at $98.2 million. General Fund support is an increase of $80.4 million, or 6.0%, over the 2021-23 legislatively adopted budget. Total funds increased by $119.4 million, 5.8%, reflecting one-time investments in statewide programs including $21 million for an incentive program to recruit and retain childcare providers working in Oregon, General Fund added for capital construction projects, and $30 million Other Funds in Article XI-Q Bonds to address the increasing costs of previously approved public universities capital improvement projects.

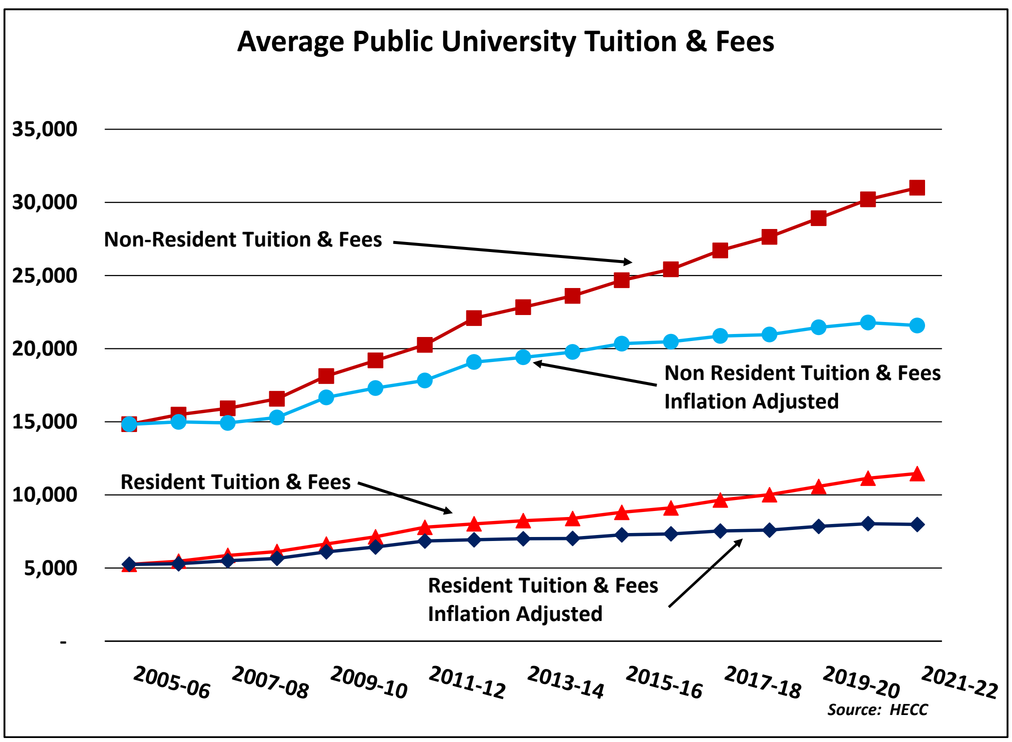
Public University Support Fund: $912.3 Million General Fund

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, 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 convened a workgroup to review the SSCM and made changes to the funding model including providing additional weighting for community college transfer students, additional weighting for equity providing a bonus for underrepresented students to close attainment gaps, and redesign of the mission differentiation category.

Based on data provided by the public universities to HECC, total enrollment grew from 82,169 (67,703 full-time equivalent students (FTE) in the fall of 2007 peaking in the fall of 2013 at 102,939 (83,483 FTE). Since 2013, enrollment had fallen back to 100,690 (81,520 FTE) in 2019. 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 2020 the percentage of non-resident students had grown to 35.7% (37.4% FTE). The graph below demonstrates the changes in enrollment.



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.

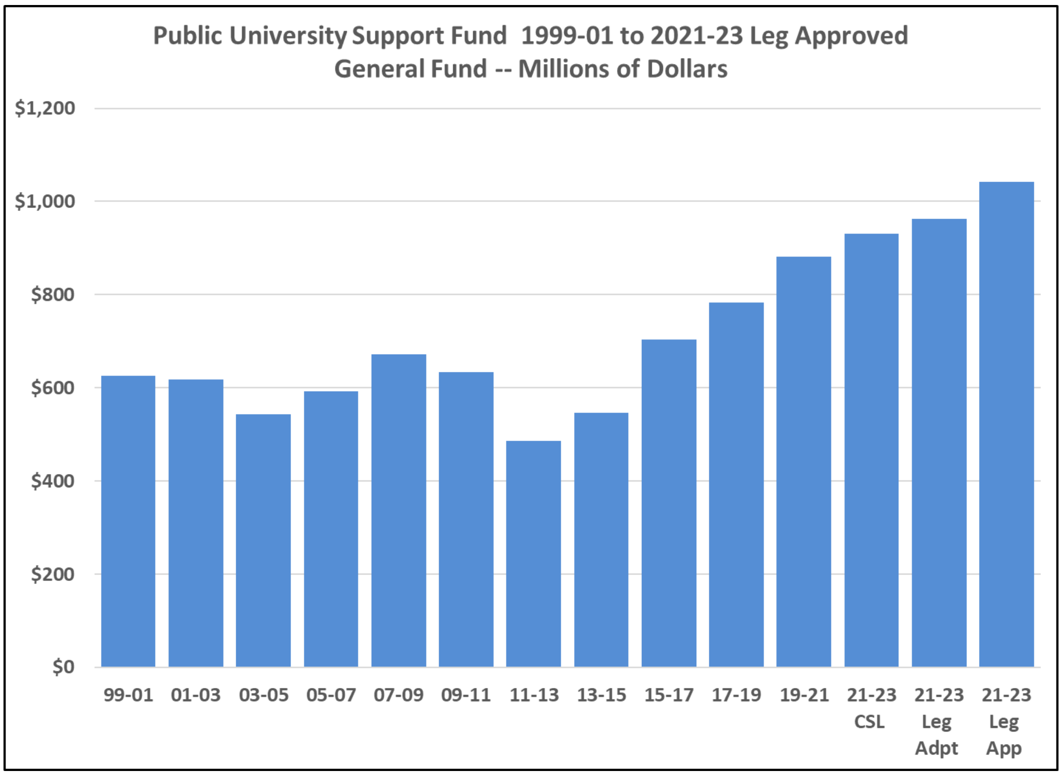


Legislatively Adopted Budget

The 2021-23 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 $901.1 million General Fund, which is $64 million, or 7.7%, more than the 2019-21 approved budget level and 1.7% above the 2021-23 current service level. The budget also includes $3.5 million Other Funds for a one-time grant to Southern Oregon University to demolish Cascades Hall. This is funded with American Rescue Plan funds. Given the maintenance costs of this building currently and the potential remodeling cost, the most cost-effective alternative over time is demolishing the building.

Increased state support for the PUSF offsets the need for public universities to significantly increase tuition rates, offset education and general expenditure reductions, and decrease the use of university reserves. Resident undergraduate tuition growth between 2020-21 and 2021-22 is generally below 4% with the exception of Oregon Institute of Technology which increased by 8%. The Commission must approve undergraduate tuition increases above 5%.

The following graph shows state support for public universities over time. It combines the current Public University Support Fund program area with the Public University 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. The numbers in the text above do not include these State Programs resources which are described in the next section. This graph is not inflation adjusted.



<u>Legislatively Approved Budget Update</u>
The 2021-23 legislatively approved budget for the Public University Support Fund totals $912.3 million General Fund, which is $11.25 million, or 1.25%, more than the 2021-23 legislatively adopted budget level. The increase is a result of the following one-time additions for the following purposes:

- $10 million General Fund for distribution to Oregon State University for the Innovation District Landfill Project.
- $1 million General Fund for distribution to Eastern Oregon University for Visual and Performing Scholarship.
- $250,000 General Fund for distribution to Oregon State University for the modernization of the Oregon Agricultural Research Center.
- $4 million Other Funds from the American Rescue Plan Act for distribution to Eastern Oregon University for restoration of the Grand Staircase.

Public University State Programs: $129.5 Million General Fund

The Public University State Programs budget unit includes General Fund support for a variety of institutes, 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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget level of $61.9 million General Fund represents a $17.3 million, or 38.8%, increase from the 2019-21 legislatively approved budget. Projects that were phased out from the 2019-21 budget include the Rapid Toolmaking Center of Excellence Research; Additive Manufacturing and Rapid Prototyping Education Laboratory; and the PacWave Energy Test site.

New projects or initiatives supported with General Fund include:

- Funding of just under $3 million for the Veterinary Diagnostic Laboratory at OSU. The Laboratory had been funded out of the PUSF through 2019-21, but it was decided during the deliberations of the new Student Success and Completion funding model that it be funded as a State Program.
- One-time funding of $4.7 million was approved for the Strong Start program at the seven public universities designed to assist students transitioning from high school to college. These funds are targeted to potential students who did not attend college for the 2020-21 and who postponed college or are low income.
- $5.5 million in one-time funding was approved for two initiatives at OIT. The Center of Excellence in Applied Computing is to receive $3.5 million for establishing the Center for hardware, software, and other costs. Students will be trained in the Center for targeted IT related certificates and degrees. The remaining $2 million is for rural health initiative in Southern Oregon for dental hygiene, applied behavior analysis, applied psychology, and a new doctoral program in physical therapy.
- One-time funding of $1 million for PSU’s Center for Women’s Leadership to support the New Leadership Oregon Program, student scholarships, and to sustain and expand the Center.
- OSU was designated to receive $427,083 for a study relating to wind energy facilities and the prevention of avian deaths associated with operation of those facilities.
- Three policy bills were approved that designated funds for OSU including: $1.1 million for mapping wildfire risk and assisting in the development of a 20 Year restoration plan; $300,00 for upgrades to facilities and equipment at the Clark Meat Science Center; and $370,00 split between the Molluscan brood stock program, the Cooperative Institute for Marine Resources Studies, and monitoring ocean acidification.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget of $129.5 million General Fund represents a $67.6 million, or 109.33%, increase in General Fund over the 2021-23 legislatively adopted budget. General Find increase support the following one-time investments:

- Nearly $100 million General Fund on a one-time basis to support the expansion of access to childcare in Oregon through programs that bolster and support the childcare sector. $21 million of this amount was appropriated to HECC for Portland State University’s Oregon Center for Career Development in Child Care to award two annual $500 recruitment and retention payments to childcare providers working in Oregon. Of the $21 million total, $18.3 million is available to make grants to providers, and $2.7 million pays for administration and the program’s operating costs.
- $10.1 million for distribution to the University of Oregon to purchase scientific equipment for Building 2 of the Phil and Penny Knight Campus for Accelerating Scientific impact.
- $16.6 million for distribution to Western Oregon University to support the main steam line replacement project.

- $7.5 million General Fund to continue the Strong Start program at the seven public universities for an additional school year.
- $6.5 million for distribution to Oregon State University for the Hatfield Housing project.
- $4.5 million for distribution to the University of Oregon to support the Oregon Hazards Lab (OHAZ) Wildfire Camera Network.
- $700,000 to support the expansion of the University of Oregon Education's Oregon Child Abuse Prevalence Study.
- $350,000 for distribution to Oregon State University for the repair and maintenance of the research vessel *Pacific Storm*.
- HB 4077 (2022) provided $108,691 General Fund to OSU Institute for Natural Resources and $82,664 General Fund to PSU Population Center to support the development of the environmental justice tool. The bill directs the Environmental Justice Council, in collaboration with the Department of Administrative Services, the Institute for Natural Resources at Oregon State University, Portland State University's Population Research Center, the Department of Environmental Quality, and the Oregon Health Authority, along with other natural resource agencies, to develop an environmental justice mapping tool. The mapping tool will be maintained by OSU's Institute for Natural Resources.

Public University State Programs

	General Fund
Existing Programs	
Engineering Technology Sustaining Funds (various universities)	28,591,600
OSU with UO TallWood Design Institute	3,974,986
UO & PSU Dispute Resolution	2,921,696
PSU Oregon Solutions	2,639,705
OSU Fermentation Science	1,449,500
UO, OSU, & PSU Signature Research Centers	1,216,776
UO Labor Education Research Center	1,162,953
OSU Marine Research Vessel Program	724,751
OIT Renewable Energy Center	558,503
PSU Population Research Center	509,026
OSU Institute of Natural Resources	466,682
UO Clinical Legal Education Program	407,016
OSU Climate Change Research Institute	365,809
PSU Willamette Falls Locks Commission/Authority	212,231
OSU Channel Maintenance Impact Study	234,553
	45,435,787
New Programs - 2021 Session	
OSU Veterinary Diagnostic Laboratory	2,990,855
Strong Start Imitative (one-time)	4,700,000
OIT Center for Excellence in Applied Computing	3,500,000
OIT Health Related Clinical and Laboratory Facilities	2,000,000
PSU Women's Institute	1,000,000
OSU Avian Deaths and Energy Facilities	427,083
OSU Wildfire Risk and 20 Year Plan for Restoration	1,138,040
OSU Upgrades to Clark Meat Science Center Facilities and Equipment	300,000
OSU Molluscan Broodstock Program at Hatfield Marine Science Center	170,000
OSU Cooperative Institute for Marine Resources Studies	100,000
OSU Monitoring Ocean Acidification	100,000
	16,425,978
Total 2021-23 Legislatively Adopted Budget	**61,861,765**
New Programs - 2021 Second Special Session and 2022 Session	
OSU Oregon Climate Change Research Institute	250,000
PSU for Childcare Provider Payments (one-time)	21,000,000
UO equipment for Knight Building (one-time)	10,142,845
WOU Main Steam Line (one-time)	16,500,000
Strong Start (one-time)	7,500,000
OSU Hatfield Housing Project (one-time)	6,500,000
UO OHAZ Wildfire Camera Network (one-time)	4,500,000
Oregon Child Abuse Prevalence Study (one-time)	700,000
OSU Pacific Storm Repair (one-time)	350,000
OSU Istitute for Natural Resources (one-time)	108,691
PSU Population Research Center (one-time)	82,664
	67,634,200
Total 2021-23 Legislatively Approved Budget	**129,495,965**

Statewide Public Service Programs: $161.6 Million General Fund, $49.4 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 practical 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 – Established by the Oregon Legislature in 1941, the laboratory 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>

Public University Statewide Public Service Programs

Millions of Dollars

	2021-23 Legislatively Adopted Budget		
	General Fund	Lottery Funds	Total Funds
Agricultural Experiment Station	87.6		87.6
Extension Service	59.4	49.4	108.8
Forest Research Laboratory	12.1		12.1

The Legislature increased General Fund support for the three Statewide Public Service programs by $19.1 million General Fund, to a total of $159.1 million, which is 13.6% above the 2019-21 combined budget level for these programs. The budget for the Outdoor School program increased by $6.4 million Lottery Funds to $49.4 million, an increase of 14.9%. This represents the amount available from Lottery proceeds allowed under Ballot Measure 99 based on the May 2021 revenue forecast.

Beyond the general current service level adjustments, the increases in the General Fund budget include:

- In the changes made to the Student Success and Completion funding model for the PUSF, a decision was made to transfer the funding for the OSU's Facilities Maintenance on the Corvallis campus related to the programs of the Extension Service, Experiment Station and Forest Research Laboratory from the PUSF to the Statewide Public Services program budget unit. The transfer amount is $4.4 million General Fund.
- A one-time grant of $150,000 General Fund was made to the Berry Research Initiative at the North Willamette Regional Extension Center to assist strawberry growers in invigorating the fresh-market industry. Funding will also be used to mentor four students participating in research projects.

- OSU's Wine Research Institute received a one-time grant of $2.7 million General Fund for increasing its capacity to test more wine grapes, fruits and other agricultural products that have been affected by smoke from wildfires. Funds will also be used to remodel space for testing equipment, laboratory technicians, and support staff.

Legislatively Approved Budget Update

Public University Statewide Public Service Programs

Millions of Dollars

	2021-23 Legislatively Approved Budget		
	General Fund	**Lottery Funds**	**Total Funds**
Agricultural Experiment Station	87.6		87.6
Extension Service	61.9	49.4	111.3
Forest Research Laboratory	12.1		12.1

The 2021-23 legislatively approved budget of $161.6 million General Fund and $211 million total funds represents a total funds increase of $2.5 million General Fund. Of this total $1 million General Fund was approved for distribution to the Oregon State University Extension Service for the Oregon Bee Project approved during the 2022 session.

The remainder of the increase over the legislatively adopted budget is from investments approved during the 2021 second special session as part of the drought relief package:

- $500,000 General Fund for distribution to Oregon State University Extension Service to provide technical assistance to small and underrepresented farmers and ranchers in accessing state and federal assistance programs.
- $500,000 General Fund for distribution to Oregon State University Extension Service to provide education, marketing, and technical assistance for drought resistant crops and conservation and efficiency infrastructure.
- $250,000 General Fund for distribution to Oregon State University Extension Service to work with commodity commissions to survey producers around the state.
- $250,000 General Fund for distribution to the Oregon State University College of Agricultural Sciences to conduct soil health research.

Sports Lottery: $16.5 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. Sports Lottery funding was limited to $8.24 million in the 2015-17 and 2017-19 biennia.

Legislatively Adopted Budget

Sports Lottery Allocation

	2021-23 Legislatively Adopted Budget
Eastern Oregon University	2,858,543
Oregon Institute of Technology	2,858,543
Oregon State University	1,206,403
Portland State University	2,667,634
Southern Oregon University	2,858,543
University of Oregon	1,206,403
Western Oregon University	2,858,543

The 2021-23 approved Sports Lottery funding of $16.5 million is a $2.4 million (17%) increase over the 2019-21 budget of $14.1 million. For 2021-23, the amount meets the 1% dedicated amount based on the May 2021 revenue forecast. The increased funding is allocated in the same proportion to the institution as was in 2019-21. The allocations to OSU and UO are less than for the regional universities since they have access to large conference TV contracts that the four regional universities do not have access.

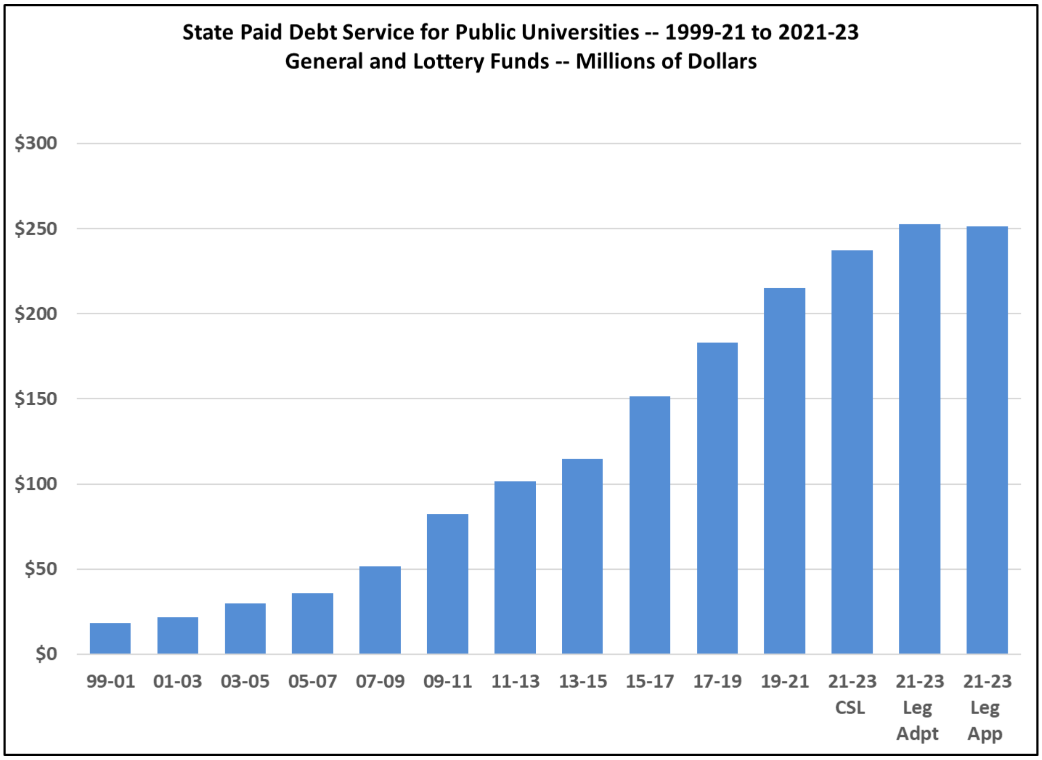
Legislatively Approved Budget Update
No changes were made to the Sports Lottery program allocations during the 2021 second special session or the 2022 session.

Public University Debt Service: $219.1 Million General Fund, $32.3 Million Lottery Funds

The public university debt service budget area 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, have traditionally been 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 union facilities, dorms, and parking structures. All 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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget included $220.1 million General Fund and $32.3 million Lottery Funds for debt service on outstanding bonds issued for public university capital construction projects. General Fund debt service is a $38.7 million, or 21.3%, more than the 2019-21 legislatively approved total of $181.4 million. Lottery Funds debt service is a $1.5 million, or 4.3%, less than the previous period. The reduction in Lottery Funds debt service is caused in part to not issuing any lottery bonds in 2019-21 due to the steep drop in lottery proceeds at the beginning of the pandemic that occurred when bars and restaurants were ordered to close plus the refinancing of outstanding Lottery Bonds in the Spring of 2021 to reduce future debt payments.

Since 2007-09, the combined General and Lottery Funds for public university debt service paid by the state has increased over 390%, reflecting the increasing level of bonding approved for university capital projects. Over the past four biennia, since 2013-15, this growth has increased by 120%. The following graph shows historical levels of state debt service payments.



The 2021-23 budget also includes $6 million Other Funds from interest earnings and excess proceeds that will be applied to debt service payments on state-supported bonds during the biennium offsetting the need for General Fund resources. Other Funds Nonlimited debt service payments on bonds supported with university revenues is estimated at $152 million for 2021-23.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget of $219.1 million General Fund and $7 million Other Funds reflects a $1 million adjustment to Other Funds balances generated through excess bond proceeds and interest earnings to debt service.

Capital Construction: $475.9 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, 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 expenditure of bonds proceeds was no longer limited by Other Funds expenditure limitations. With the formal termination of OUS a state agency had to include these payments in its budget so that they could be included as part of the state budget, therefore capital construction expenditure limitation was added to HECC's budget in the 2015-17 biennium. 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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget includes $445.9 million Other Funds capital construction six-year expenditure limitation for distribution of general obligation bond proceeds to public universities. This represents an $189.2 million, or 73.7%, increase from the $256.7 million approved for public university capital projects in the 2019-21 legislatively approved budget. Most of the bonds for 2019-21 were approved during the August 2020 second special session. The table below provides a project-by-project summary.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget of $475.9 million Other Funds reflects the approval of $30 million in Article XI-Q Bonds to address the increasing costs of previously planned public universities capital improvement and renewal projects.

Public University Capital Construction Projects for 2021-23

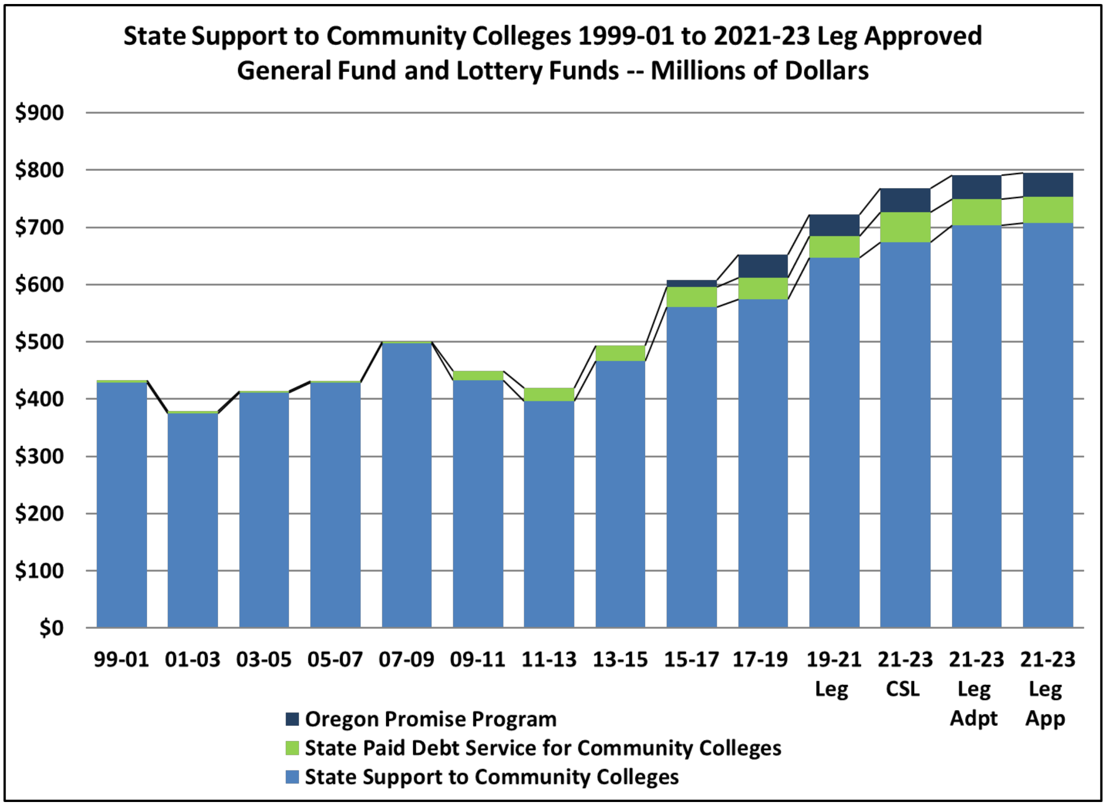
Project	Institution	Article XI-G Bonds	Article XI-Q bonds	Article XI-F(1) Bonds
Capital Improvement and Renewal	All		80,000,000.0	
Inlow Hall Renovation Phase II	EOU	564,900.0	17,700,200.0	
Residence Hall	OIT			55,000,000.0
OMIC R&D Center for Additive Manufacturing Innovation	OIT		5,000,000.0	
Student Success Center	OSU Cascades	5,000,000.0	8,800,000.0	
Cordley Hall Renovation Phase II	OSU	25,000,000.0	61,000,000.0	
Reser Stadium West Grandstands	OSU			40,000,000.0
Gateway Center Re-use and Extension	PSU	5,000,000.0	45,000,000.0	18,000,000.0
Heritage Building Renovation	UO	5,850,000.0	52,650,000.0	
Student Success Center	WOU	660,000.0	20,680,000.0	
Cost Escalation for Applicable Projects	All		30,000,000.0	
Totals		**42,074,900.0**	**320,830,200.0**	**113,000,000.0**

State Support to Community Colleges (Combined Totals)

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	710,396,428	755,105,047	779,788,933	783,621,433
Lottery Funds	11,277,642	13,379,130	11,833,547	11,833,547
Other Funds	27,269,921	47,780	68,185,966	68,185,966
Total Funds	**$748,943,691**	**$768,531,957**	**$859,808,446**	**$863,640,946**

Program Description
This program area represents support 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).

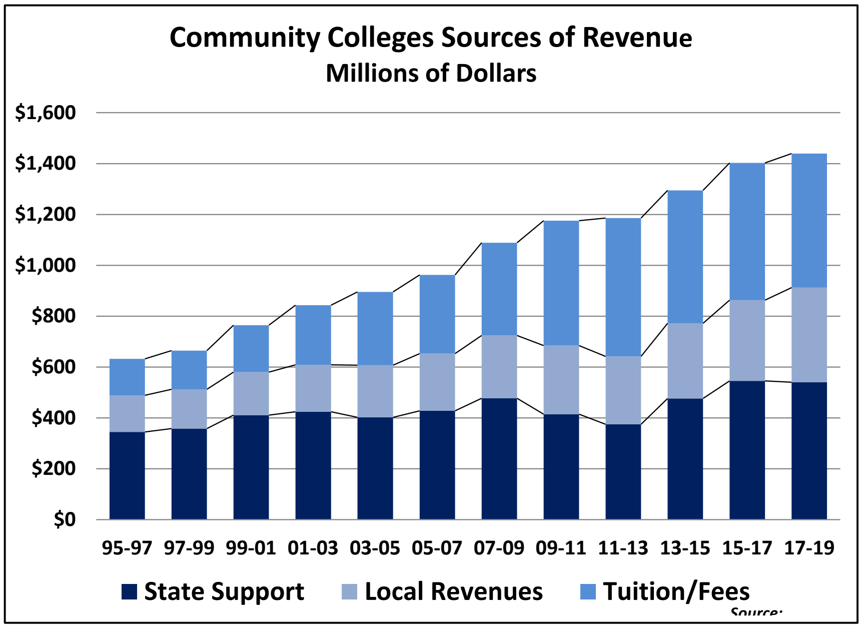
The following chart shows the amount of General Fund and Lottery Funds resources over time for this program area, including the more recent Oregon Promise Program:



Revenue Sources and Relationships

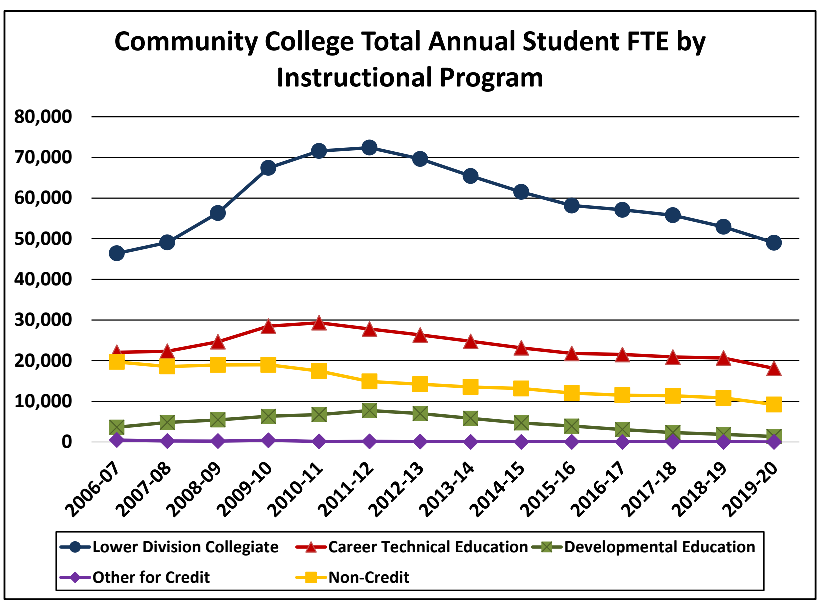
Other Funds reflect receipts from the state timber tax and are distributed through the Community College Support Fund. Community colleges also collect property taxes to fund operations. These taxes do not flow through the state budget and are not included in any budget figures identified here but are a factor in the distribution of the state funding for community colleges. Approximately $407.3 million of property tax collections are projected by the Legislative Revenue Office (June 2020 forecast) to be available for community colleges operations in 2021-23, up from an estimated $381.4 million in the 2019-21 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 20 plus years. The following chart shows the source of revenues for the period 1997-99 through 2017-19 and demonstrates that community colleges are depending less on state support and more on tuition and fees. The state support share of operations funding has decreased from 55% in 1995-97, to 32% in 2011-13 and then increased back to 39% in 2015-17. Tuition and fees have become more and more important, growing from 23% of all support in 1997-99 to 44% in 2011-13, before falling back to 37% for 2017-19. The amount of support from property taxes during this period remained relatively stable ranging from 22% to 26%.

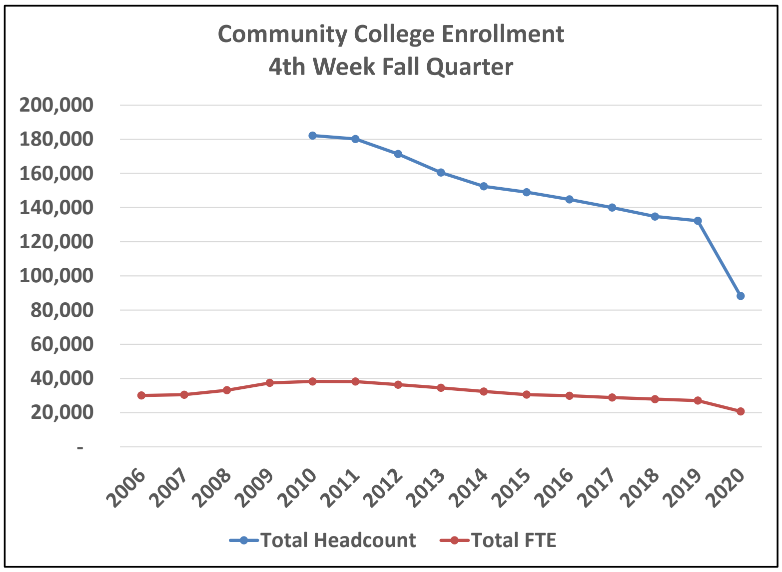


Community College Support Fund and Other Programs: $706.9 Million General Fund

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 $699 million General Fund for 2021-23. The Community College Support Fund has been distributed primarily on an adjusted enrollment basis, with 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.

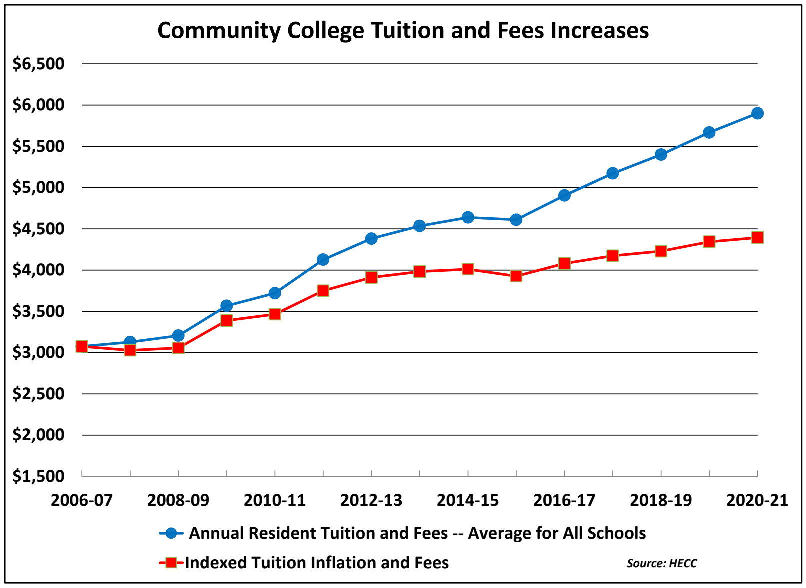


As demonstrated in the following graph, between the 2010-11 and 2019-20 academic years, full-time student equivalent (FTE) enrollment at community colleges decreased by over 11,000 or 29.3%. For the same period, the headcount fell by almost 50,000 or 27.4%. The 2010-11 academic year represented the enrollment peak, up to that point enrollment had been growing (as shown by the FTE count), but because of the economic recession more people had been enrolling in community college. 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. As the economy improved after the recession and the number of jobs increased, both the FTE count and headcount have fallen off. The same pattern can be seen in the graph above on the type of student by instructional program. This data measures at the fourth week of the Fall term, the end of each term, and at the end of the school year. As the academic year progresses these numbers often decrease as students drop out prior to the end of the term and the end of the school year. This graph also shows the impact of the pandemic has had on enrollment, dropped significantly for the 2020-21 academic year.



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 was 38,224 in 2011-12. Funding for 2017-19 was higher at $573.9 million, but the FTE count at 27,898 in 2018-19 school year was less than what it was in 2011-13.

Tuition and fees at community colleges continues to increase and also increase for the 2021-22 school year. The following chart shows that combined tuition and fees have climbed steadily between the 2003-04 and 2020-21 school years, increasing by just over 140% from $2,441 to $5,962. When adjusted for inflation (the bottom line on the graph), tuition still saw significant growth over the same period (66%). 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 due to the economic resecession.



HECC has the authority to adopt rules for distributing appropriations made to support post-secondary education including, the Community College Support Fund. The current distribution model has been largely unchanged since 2005. The funding is generally distributed based 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 HECC distributions, 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. HECC now plans to establish a formula advisory workgroup to consider alternative models based on access, equity, and stability.

<u>Legislatively Adopted Budget</u>

State Support for Community Colleges
Millions of Dollars

	2021-23 Legislatively Adopted Budget			
	General Fund	**Lottery Funds**	**Other Funds**	**Total Funds**
Community Support Fund	699.0		11.2	710.2
Skills Centers	1.4			1.4
Underserved Students	2.6			2.6
Oregon Promise Program	42.2			42.2
Debt Service	34.5	11.8	0.5	46.9
Capital Construction	-	-	56.5	56.5
Total State Support for Community Colleges	**779.7**	**11.8**	**68.2**	**859.8**

The $703 million General Fund appropriated for 2021-23 represents a $56.7 million, or 8.8%, increase over the 2019-21 legislatively approved budget. The Community College Support Fund represents $699 million of this budgeted amount. Also included are $1.4 million General Fund for to the two Skills Centers in the Portland Metro area, and $2.6 million General Fund for initiatives designed to increase the number of under-served, low-income, and first-generation community college students. Also, part of this budget for 2021-23 is $10.5 million Other Funds for payment to those community colleges which provide educational services for incarcerated adults in Department of Corrections (DOC) facilities. This $10.5 million is funded with a transfer from DOC. There is also one-time funding of $636,812 Other Funds for land movement reparation (sinkhole) at Umpqua Community College. This grant is funded with federal American Rescue Plan Act funds transferred from the Department of Administrative Services and budgeted as Other Funds. Tuition increases for community colleges is expected to be relatively small for the 2021-22 school year. Five community colleges are not expected to have no change or minimal change while two colleges will decrease tuition (Klamath and Oregon Coast). The other colleges are increasing tuition between 1% and 4%.

Legislatively Approved Budget Update

State Support for Community Colleges
Millions of Dollars

	2021-23 Legislatively Approved Budget			
	General Fund	Lottery Funds	Other Funds	Total Funds
Community Support Fund	702.9		11.2	714.1
Skills Centers	1.4			1.4
Underserved Students	2.6			2.6
Oregon Promise Program	42.2			42.2
Debt Service	34.5	11.8	0.5	46.8
Capital Construction	-	-	56.5	56.5
Total State Support for Community Colleges	**783.6**	**11.8**	**68.2**	**863.6**

The 2021-23 legislatively approved budget of $706.8 million General Fund and $718 million total funds represents a total increase of $3.8 million General Fund reflecting the following expenditures approved during the 2022 session:

- $2.5 million for distribution to Treasure Valley Community College for the Renewable Energy Apprenticeship and Pre-Apprenticeship Programs.
- $755,00 for distribution to Southwestern Oregon Community College for a new fire training tower.
- $577,500 for distribution to Linn-Benton Community College for the Takena Hall elevator.

Oregon Promise Program: $42.2 Million General Fund

In 2015, the Legislature passed SB 81 which established the Oregon Promise program designed 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; (3) maintaining a minimum level of 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. Grants range from $1,000 to over $4,000 per year for full-time students, less the $50 student co-pay per year. The maximum grant also depends on the tuition charged by the specific community college. If tuition is more than the average tuition of all 17 community colleges, the maximum grant is the amount of the average. The program covers the average cost of 12 credits of tuition. The minimum annual grant size is $1,000 and the average grant size was $2,069 for 2020-21 and is projected to be $2,137 for 2021-22.

While this program is designed to serve all those that are eligible, this 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. While more than half of the participants are low-income, 80% of the program dollars went to students from higher income households. In the past eligibility has been limited based on the level of Expected Family Contributions or EFC (a measure used on the FAFSA). A maximum EFC of $42,000 was in place for the class of 2021, but the funding level of the program for 2021-23 proved sufficient to allow the agency to decide to eliminate the limit. HECC had proposed program changes to Oregon Promise as well as other programs to provide equity in the programs but these changes were not made during the 2021 legislative session. HECC will likely propose those or similar changes in the future.

Since this program is relatively new, not only in Oregon but nation-wide, projecting participation and costs can be 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. The 2019 Legislature passed HB 2910 which expanded 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 the first five-years of the program, about 77% of the students that are authorized for the program actually participate in the program annually. Roughly 75% of the participants complete their enrollment requirements of being enrolled for at least six credits in all three terms of the school year. About 70% of the participants re-enroll in the next school year. In the first 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 2021-23 General Fund budget for the Oregon Promise program is $42.2 million. This represents a $5.6 million, or 15.4%, increase from the 2019-21 legislatively approved budget. There was a reduction to the program during the August 2020 second special session, but that was restored for 2021-23 and the $42.2 million funding level is the same as program's current service level. At this time, there is not the expectation of any EFC based limitation for the program in 2021-23. Based on this budgeted amount, the agency projects that for 2021-23 the average disbursement of award will be $2,137 to an estimated 7,600 recipients for the 2021-22 school year and $2,179 with 10,000 recipients for 2022-23. These projected award amounts and number of recipients could leave a significantly higher funding level for the second year. Enrollment in the program will have to be monitored to ensure funding and participation are in balance for the second year of the biennium.

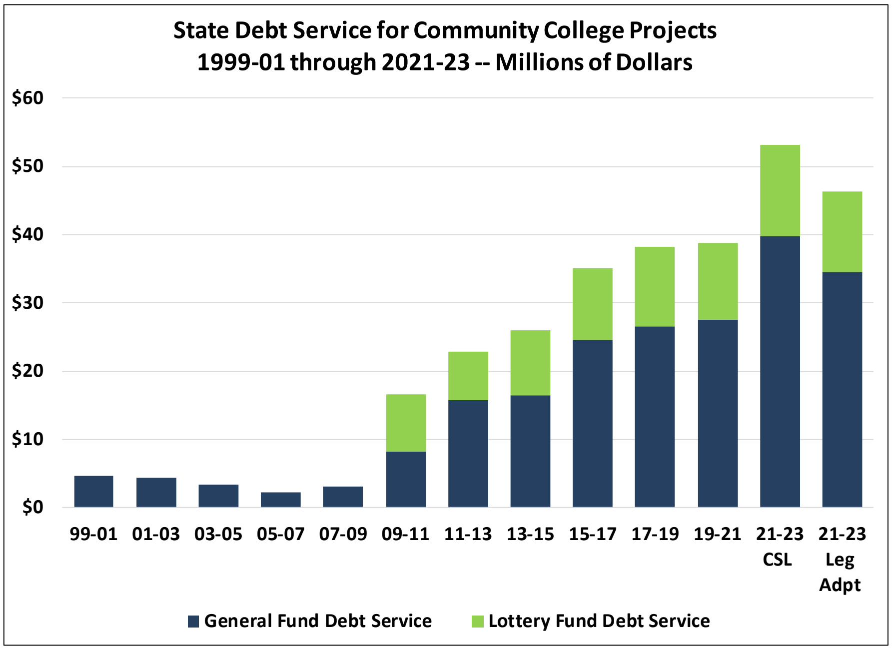
Legislatively Approved Budget Update

No changes were made to the Oregon Promise program during the 2021 second special session or the 2022 session.

Community College Debt Service: $34.5 Million General Fund, $11.8 Million Lottery Funds

The state issues Article XI-G and Lottery backed 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 per constitutional requirement. There is such no match requirement for Lottery bonds. Beginning in 2013-15, each community college was 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 of debt service paid by the state has grown significantly. In the 2007-09 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 state supported debt service payments on community college projects has increased from $3.2 million (all General Fund) in 2007-09 to a combined total for 2021-23 of $46.3 million.



Legislatively Adopted Budget

The 2021-23 combined General Fund and Lottery Funds budget for debt service on bonds issued on behalf of community colleges totals $46.3 million, a $7.6 million, or 19.5%, increase from the legislatively approved budget for 2019-21. This amount is $6.8 million less than the combined total from the 2021-23 current service level because of reductions in estimated debt service due to cancelled projects, updated interest assumptions, and refunding of existing bonds.

Legislatively Approved Budget Update

No changes were made to the community colleges debt service budget during the 2021 second special session or the 2022 session.

Community College Capital Construction: $56.5 Million Other Funds

The state finances bonding for the construction, acquisition, deferred maintenance, and major renovation of community college properties. 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. Often when a community college has had trouble identifying the match, a project must be reauthorized, and the six-year limitation is extended to meet the construction schedule.

The number of projects vary from one biennium to another. For 2013-15 and 2017-19, most community colleges received project authority for Article XI-G bonds. 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. For 2019-21, only four community colleges had authorized projects.

Legislatively Adopted Budget

A total of $56.5 million Other Funds Capital Construction limitation (6-year) was included in the 2021-23 legislatively adopted budget for six new college projects and two reauthorized projects. This 6-year expenditure limitation expires on June 30, 2027. The table below summarizes these new projects as well as three projects that were reauthorized.

Community College Capital Construction Projects for 2021-23

Project	Community College	Article XI-G Bonds
New Projects		
Building 7 (Physical Education) Remodel	Chemeketa	8,000,000
Child Care Resource Learning Center	Klamath	1,500,000
Agricultural Center for Animal Sciences	Linn-Benton	8,000,000
Accessibility Upgrades, Dental Hygiene Lab & Deferred Maintenance	Mt. Hood	8,000,000
Transportation Technology Center	Rogue	7,000,000
Classroom/Office Building Construction and Renovations	Tillamook Bay	8,000,000
Reauthorized Projects		
Maritime Science Building	Clatsop	7,996,994
Workforce Education and Resiliency Center	Oregon Coast	8,000,000
Total		**56,496,994**

Existing Other Funds expenditure limitation initially approved in 2017-19 were eliminated or removed for three projects -- Mt. Hood Maywood Park Center ($8 million), Clatsop Maritime Science Building ($8 million) and Oregon Coast Workforce Education and Resiliency Center ($8 million). The Clatsop and Oregon Coast projects were reauthorized with 2021-23 expenditure limitation. In addition, expenditure limitation in both 2017-19 and 2019-21 was reduced for the Agricultural Resource Management facility at Blue Mountain Community College.

Legislatively Approved Budget Update

No changes were made to the community capital construction budget during the 2021 second special session or the 2022 session.

State Support to Oregon Health and Science University

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	102,639,221	104,049,728	106,049,728	152,549,728
Other Funds	30,920,287	30,869,380	30,869,380	31,564,551
Other Funds (NL)	6,234,016	2,636,930	2,631,528	2,631,528
Total Funds	**$139,793,524**	**$137,556,038**	**$139,550,636**	**$186,745,807**

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 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 revenues are primarily Tobacco Master Settlement Agreement 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. 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) and paid with non-state resources.

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 2015-17 (this amount does not include $3.5 million General Fund for debt service that was also approved for OHSU). The 2019-21 legislatively approved program budget of $78.8 million (excluding debt service) generally provided current service level support for programs with small reductions in Rural Health programs and the then one-time investment in the Children's Integrated Health Database.

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 reflected the mid-biennium transfer, with debt service payments prior to May 2018 in the DAS budget and payments through the remainder of the biennium the HECC 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.

Direct state funding makes up a small percentage of OHSU's total revenues. By far the the hospital's largest funding source is patient service revenues, which includes indirect state resources through the Oregon Health Plan and reimbursements for provision of 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

State Support for Oregon Health and Science University

Millions of Dollars

	2021-23 Legislatively Adopted Budget			
	General Funds	**Other Funds**	**Other Funds NL**	**Total Funds**
Programs				
School of Medicine	28.0			28.0
School of Nursing	24.2			24.2
School of Dentistry	11.4			11.4
Office of Rural Health/Area Health Education Centers	5.0			5.0
Child Development and Rehabilitation Center	9.0			9.0
Oregon Poison Center	2.9			2.9
Children's Integrated Health Database	2.0			2.0
Total Programs	**82.5**			**82.5**
Debt Service				
Oregon Opportunity Program - XI-L Debt Service		30.9		30.9
OHSU Knight Cancer Institute - XI-G Debt Service	23.6			23.6
Legacy Debt - XI-F(1) and XI-G Debt Service			2.6	2.6
Total Debt Service	**23.6**	**30.9**	**2.6**	**57.1**
Total OHSU Budget	**106.1**	**30.9**	**2.6**	**139.6**

The 2021-23 legislatively adopted budget for OHSU includes state support for OHSU's education and other programs, as well as debt service payments on outstanding bonds issued for the benefit of OHSU. The General Fund for 2021-23 totals $106.1 million, with a total funds budget for 2021-23 of $139.6 million. This represents an increase of 3.4% for General Fund and there is a small reduction in Total Funds for 2021-23 because of bond refunding during 2019-21. Funding levels for various programs and functions are listed in the table above. Support for the programs components of the OHSU budget is generally at the current service level for 2021-23, except that the one-time $2 million 2019-21 investment for the Children's Integrated Health Database is continued into 2021-23.

Legislatively Approved Budget Update

State Support for Oregon Health and Science University

Millions of Dollars

	2021-23 Legislatively Approved Budget			
	General Funds	**Other Funds**	**Other Funds NL**	**Total Funds**
Programs				
School of Medicine	28.0			28.0
School of Nursing	24.2			24.2
School of Dentistry	11.4			11.4
Office of Rural Health/Area Health Education Centers	5.0			5.0
Child Development and Rehabilitation Center	9.0			9.0
Oregon Poison Center	2.9			2.9
Children's Integrated Health Database	2.0			2.0
Statewide Behavioral Health Capacity Dashboard	1.5			1.5
Healthcare Workforce 30-30-30 Initiative	45.0			45.0
Total Programs	**129.0**			**129.0**
Debt Service				
Oregon Opportunity Program - XI-L Debt Service		31.6		31.6
OHSU Knight Cancer Institute - XI-G Debt Service	23.6			23.6
Legacy Debt - XI-F(1) and XI-G Debt Service			2.6	2.6
Total Debt Service	**23.6**	**31.6**	**2.6**	**57.8**
Total OHSU Budget	**152.6**	**31.6**	**2.6**	**186.8**

During the 2022 session a number of enhancements were approved for the OHSU support budget. The 2021-23 legislatively approved General Fund for 2021-23 totals $152.6 million represents an increase of $46.5 million, or 43.9%, from the 2021-23 adopted budget. Actions approved in 2022 session included adding $1.5 million to develop a statewide behavioral health capacity dashboard and $45 million General Fund to support the institution's goal of increasing the number of graduates in key health care professions programs (including nurses, clinical psychologists, physicians, physician assistants, public health leaders, and human nutritionists) by 30%, while ensuring that 30% of its learners are from underrepresented populations, by the year 2030. Of the total funding, $20 million annually will be used to expand capacity for ongoing health care education and pathway programs and the remaining one-time funding of $25 million will be used to establish the OHSU Opportunity Fund to provide tuition assistance and loan repayment to learners from underrepresented communities.

Oregon Opportunity Grant Program

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	99,510,413	114,219,361	166,425,084	148,878,818
Lottery Funds	40,000,000	41,720,000	12,274,716	29,820,982
Other Funds	24,669,415	15,300,200	21,300,200	21,300,200
Total Funds	**$164,179,828**	**$171,239,561**	**$200,000,000**	**$200,000,000**

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 (EFC) from the FAFSA and the other federal financial aid a student is expected to receive. In recent biennia, the EFC limit was $3,500 but with new resources in the program the anticipated EFC for the 2021-22 school year is $6,000, expanding the number of participants receiving the grant. Maximum grant amounts for 2021-22 are estimated to be $2,778 for community college students and $3,612 for public university and private college (independent) students. For the 2021-22 academic year, the agency projects that 42.4% of the students receiving grants will be community college students, just less than 51.3% will be public four-year institution students, and the remaining 6.2% will be at independent schools. This is a significant change from the previous years when over 50% of funding went to community college students and a smaller number were public university students.

Revenue Sources and Relationships

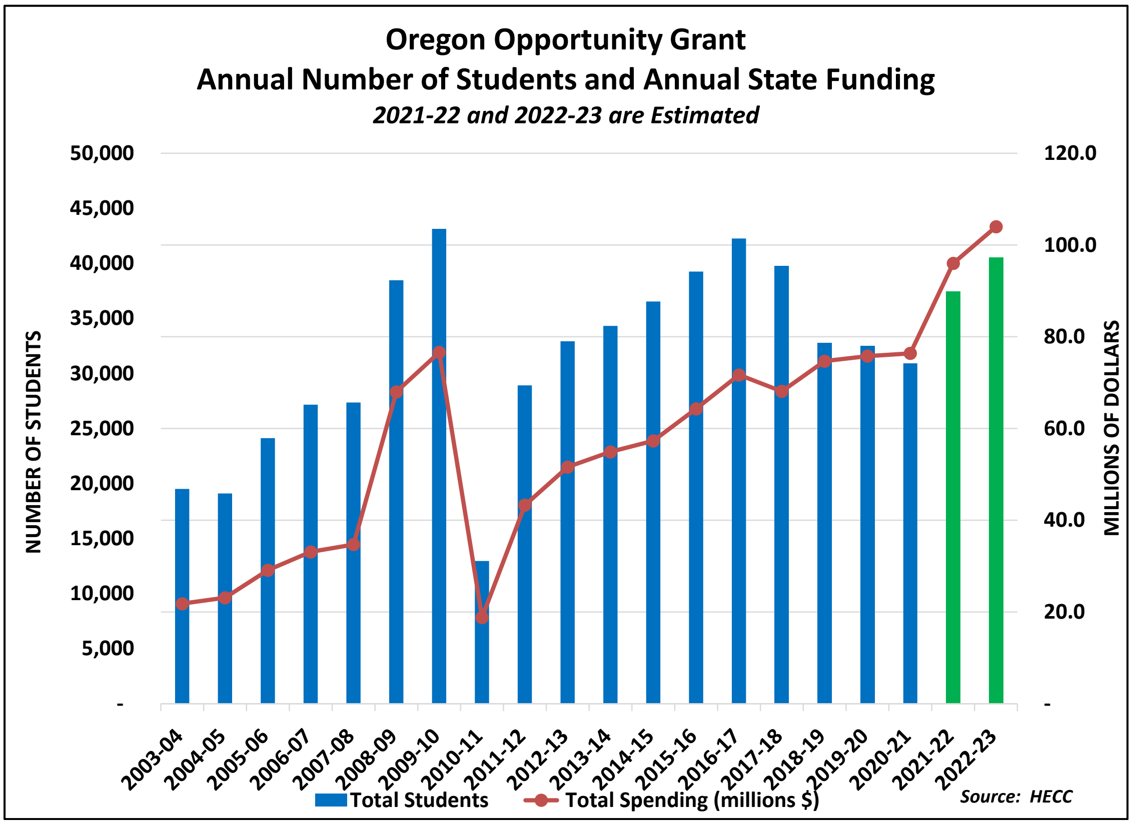
In the past, the OOG program received Lottery Funds based upon one-quarter of the earnings of the Education Stability Fund (ESF). The 2015 Legislative Assembly changed this so the OOG receives one-quarter of the earnings plus all of what is not required for debt service on bonds issued by the state for school districts years ago. These school-related bonds were paid off in the 2019-21 biennium, so now 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. The amount available for 2021-23 is also affected by the $400 million that was withdrawn from the ESF during the August 2020 second special session. The other major factor determining the amount of Lottery Funds availability is the rate of earnings from ECF. At the beginning of 2019-21, it was assumed that the Lottery Funds would contribute approximately $40 million for the OOG. Due to the combination of the ESF funds being drawn down and the significantly lower earnings estimates than originally projected, the amount actually realized was just over $5 million.

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. It was thought that changes in the federal tax code in 2018 would make these auctions less viable in the future, but they have remained strong to this point. The first auction generated just over $14 million for the program and auctions since then have generated similar amounts. This Other Funds source is factored into the funding level for the program for 2021-23. There is also a small amount of JOBs Plus related funds set aside for Temporary Assistance to Needy Families as Other Funds.

Budget Environment

The Oregon Opportunity Grant 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. The numbers are estimated for the 2021-22 and 2022-23 academic years. Both the number of students assisted, and the total annual funding has generally increased since the end of the 2008 Great 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 funding 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. The program has only served a portion of the estimated eligible applicants. During the 2014-15 academic year only 27% of the estimated eligible applicants were served, while for 2017-18 that percentage was estimated at 44%. The increased support for 2021-23 will help in serving a greater portion of the eligible population.



Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $200 million total funds reflects an increase of $35.8 million, or 21.8%, over the 2019-21 legislatively approved budget. The funding mix for the program has changed significantly based on the availability of investment earnings from the Education Stability Fund. In 2019-21, it was assumed that there would be $40 million Lottery Funds available for the program, but for 2021-23 that amount was estimated to be $12.3 million. With the $21.3 million in Other Funds (primarily revenue from the tax credit auctions), the General Fund portion makes up the difference. The result is an increase in General Fund resources of over $52 million between 2019-21 and 2021-23. Based on preliminary estimates, it is anticipated the additional funding to achieve the $200 million total funds level will result in approximately 11,000 additional awards for 2021-23.

Legislatively Approved Budget Update

The legislatively approved budget includes a fund shift for the Oregon Opportunity Grant program. A total of $17,546,266 million Lottery Funds was available to offset an equal amount of General Fund for the program. Based on the March 2022 forecast, interest earned on the Education Stability Fund for the current biennium increased by $5,841,164 over the level projected in the June 2021 forecast. Additionally, the Oregon Growth Board approved a distribution from the Oregon Growth Account (OGA) of $11,705,102 in October 2021. As there is no outstanding debt service for the Oregon Education Fund, this means that interest earnings and OGA distributions are transferred to HECC for the Oregon Opportunity Grant program. This offset leaves the OOG program funded at the same level of $200 million all funds as the legislatively adopted budget, but with a different funding mix.

TEACHER STANDARDS AND PRACTICES COMMISSION

Analyst: Neburka

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	998,080	1,726,971
Other Funds	12,080,322	10,212,917	13,946,992	14,202,144
Total Funds	**$12,080,322**	**$10,212,917**	**$14,945,072**	**15,929,115**
Positions	26	26	30	33
FTE	24.75	25.50	29.25	30.75

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 three primary areas of responsibility:

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

There are almost 63,000 educators licensed by TSPC (some have more than one license) with teachers representing over 88% of the licensees. For comparison, there are approximately 30,000 working teachers in Oregon's public schools. The Commission is one of twelve stand-alone teacher licensee entities in the United States.

Starting in 2019-21, TSPC has assumed a larger role in teacher diversity activities and in expanding the opportunity for alternative paths to licensure. From the 2017-19 through the 2019-21 biennium, TSPC had a program to provide financial assistance to teachers working on their National Board Certification, funded with a one-time $1.7 million General Fund appropriation in 2017-19. In 2021-23 this program was discontinued because a limited number of teachers were using the program.

Revenue Sources and Relationships

License fees paid by regulated educators make up most fee revenue, with fingerprint-related background check fees being dedicated for that specific purpose. In 2015, the Legislature passed HB 2411 which increased the maximum fees the Commission can charge. Basic licenses are for a three or five-year duration depending on the type of license. The fee for a new or renewed in-state basic teaching license was increased from $100 to $140. A further increase in the basic teacher fee to $187 per five years ($37 annually) was approved by the Commission in June 2019 in order to maintain a sufficient ending balance and working capital. SB 129 passed in 2021 which established time limited fees on education preparation programs and also increase the fee for relicensing after facing TSPC disciplinary action.

Budget Environment

SB 155 (2019) expanded sexual misconduct reporting requirements for school districts and brought Oregon into compliance with the federal Every Student Succeeds Act. The bill removed the requirement that a school district must complete an investigation into complaints about licensed educators, which shifted and increased investigation work for the Commission. A hard deadline was established, requiring TSPC to complete investigations within 90 days, significantly below the usual pace of completing investigations. Three investigator positions were established in 2019-21 to address the increased investigation workload and to complete investigations within the new time limit.

There is still a degree of uncertainty about 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 was the first full biennium that the impact was experienced. This uncertainty continues into 2021-23 as revenues are forecast to fall below estimated expenses. To address this potential revenue shortfall, the 2021-23 budget includes some reductions, establishment of new fees, and a transfer of resources from the fund used to support educators working on their National Board Certification. Even with those actions, it is likely that the Commission will need to raise fees in upcoming biennia to maintain a sufficient working fund balance.

Further work on the Commission's information systems is required. TSPC has completed some work on a web-based e-licensing system but has identified a number of issues that will need to be addressed by the vendor. The contract with the vendor has been amended to address the issues, with a target date for completion of January 2022. Even with these fixes, the Commission plans to replace its e-licensing system. The 2021-23 TSPC budget includes a limited duration project manager position to coordinate the planning for a replacement system.

Legislatively Adopted Budget

The total funds budget for the Teacher Standards and Practices Commission for 2021-23 of $14.9 million is $2.9 million, or 23.7%, greater than the 2019-21 total funds budget. The budget includes $998,080 General Fund, all of which is tied to HB 2166 described below. The budget includes 30 positions (29.25 FTE). The growth in the budget is in large part due passage of two policy bills affecting the agencies operations.

Major changes in the budget include:

- Elimination of two positions -- a Public Service Representative 4 (1.00 FTE) and an Investigator 2 (1.00 FTE). This reduction is the result of needing to reduce fee supported spending to ensure sufficient ending balance resources are available in future biennia.
- Addition of a limited duration Information Systems Specialist 8 position to continue the development and ongoing maintenance of the web-based e-licensing system, including new web applications. The $477,398 Other Funds cost of this position and associated spending is supported by an existing fee that educators pay when they apply for or renew their licenses.
- Addition of $5 million Other Funds expenditure limitation to continue efforts started in 2019-21 for a variety of educator diversity activities. Two positions (2.00 FTE) are continued. Funding for these initiatives is from the Fund for Student Success, provided by the Educator Advancement Council in the Oregon Department of Education. These activities include the Oregon Administrators Scholars program, evaluation of the new TSPC strengths-based approach for measuring teacher candidates' performance, and reductions in cost for the licensing and assessment of teacher candidates.
- Transfer of $1.4 million Other Funds from the National Board Certification program to the Commission's general operating account to minimize fee increases in the future. This effectively eliminates the program's funding by transferring the estimated remaining balance of program funds. Participation in the program has been limited and approximately 60% of the spending so far has gone toward payment of the staff costs of the program. Along with this transfer, there is the elimination of one position.
- Addition of $527,792 General Fund and two positions (2.00 FTE) to implement HB 2166 (2021) which allows TSPC to approve school districts, ESDs and other entities to be Educator Preparation Providers without accreditation by a national organization; and establishes new non-traditional pathways to educator licensure. The Commission and the Oregon Department of Education may return to the Legislature to request additional resources for these programs as they are developed.
- Addition of $470,288 General Fund and two positions (1.75 FTE) to implement the provisions of HB 3354, which requires TSPC to create a performance-based measure to determine if a licensing candidate's knowledge and skills quality is sufficient for licensure.

Legislatively Approved Budget

In addition to $310,850 total funds added for previously approved compensation plan adjustments, the Legislature passed an educator workforce package in HB 4030 (2022) which included $353,193 General Fund and three limited duration positions (1.50 FTE) to conduct an educator license reciprocity review, study the current educator application processes across Oregon districts, and directly assist applicants with educator licensure requirements. An additional $320,000 General Fund was approved for an education workforce data system to be developed in conjunction with the University of Oregon.

HUMAN SERVICES

PROGRAM AREA

COMMISSION FOR THE BLIND

Analyst: To

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	6,404,462	5,090,337	5,658,523	5,788,243
Other Funds	2,066,393	1,608,480	1,079,323	1,083,040
Federal Funds	18,962,730	17,172,805	17,612,064	17,994,237
Total Funds	**27,433,585**	**23,871,622**	**$24,349,910**	**$24,865,520**
Positions	68	67	69	69
FTE	66.00	65.00	66.42	66.42

Overview

The mission of the Oregon Commission for the Blind (OCB) 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 2021-23 legislatively approved budget is $24.9 million total funds and 69 positions (66.42 FTE). The agency is organized into the following five program areas:

1) Vocational Rehabilitation ($12.8 million, 25.63 FTE) is the agency's largest program with the goal of assisting Oregonians who are blind or visually impaired to develop skills to maintain or obtain 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.
2) Orientation and Career Center ($3.1 million, 9.04 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.
3) Business Enterprises ($1.8 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.
4) Independent Living Services ($2.1 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.
5) Administration Services ($5.1 million, 19.00 FTE) coordinates the mission and goals of the agency and manages Human Resources, Budget, Accounting, Operations, and Information Systems. The Workforce Innovation and Opportunity Act of 2014 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 performs 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 $5.8 million General Fund (23.3%), $1.1 million Other Funds (4.3%), and $18 million Federal Funds (72.4%).

The largest revenue source for the Commission comes from federal formula grants from the U. S. Department of Education and the U.S. Department of Health and Human Services (HHS) to administer vocational rehabilitation, and independent living 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. 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 maintenance of effort agreement is for the state as a whole, including both the Department of Human Services and the Blind Commission. Federal Funds revenue projections for the 2021-23 biennium are based on a 1.9% annual inflation on the Vocational Rehabilitation grant award. The remaining grants are projected to remain flat, as there have been no increases in federal funding over the past few federal fiscal years. General Fund and certain Other Funds are used to meet the federal maintenance of effort and matching requirements. Required match rates are as follows:

- Vocational Rehabilitation basic support: 78.7% federal and 21.3% state.
- Supported Employment: half of grant is 90% federal and 10% state; remaining half is 100% federal.
- Independent Living (Older Blind and Part B): 90% federal and 10% state.

The majority of the Commission's federal 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. Until the 2017-19 biennium, the 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 Funds revenue sources include third-party cooperative agreements with school districts and other providers, business enterprise vendor assessments, and donations. Other Funds revenues are projected to be $1,083,040, a 47.6% reduction from the 2019-21 legislatively approved budget, reflecting a reduction in revenue within the Business Enterprise Program and the elimination of the third-party cooperative agreements. The WIOA introduced Pre-Employment Transition Services to the public vocational rehabilitation system. These services, provided by the vocational rehabilitation agencies to in-school youth, are required to make up 15% of the expenditures of the federal award. Prior to WIOA, the agency had utilized third-party agreements with school districts to provide the non-federal portion to match the federal award. In order to be in compliant with federal grant requirements, agreements need to be based on a cost reimbursement model based on actual services provided, reducing available revenue utilized to match the federal VR award.

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. 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. The managers in the BE program were hit especially hard by the COVID-19 public health emergency. The vending management business model is dependent upon offering food service and vending to employees who work in, and visitors to, public buildings and facilities throughout Oregon. As these buildings and facilities closed or curtailed operations, the vending facilities operations were affected. Currently, the BE program has 15 individuals operating food service and vending machines sites throughout Oregon. In 2019, these locations generated approximately $3.9 million in sales and the average income per manager was approximately $51,045. In 2020, due to the COVID-19 public health emergency, the average income dropped to $26,196 per manager.

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 2019 was 700, which increased by 8.36% from the 2017 caseload of 646. In 2019, over 59% 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 $2,241, 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 9.3 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.

The Orientation and Career Center for the Blind (OCCB) is a highly specialized training program for Oregonians who experience blindness. OCCB served 524 clients in federal fiscal year 2019. Cost drivers for this program are directly associated with demand for services. Costs are driven by two main categories: (1) personal services for qualified, specialized staff; and (2) special payments for adaptive equipment, devices and training.

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 $26,854 for assisted living to $113,168 for nursing home care per individual per year. In 2019, the average caseload cost was $1,250. 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 $14.9 million. 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. 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 last two decades, 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 2021-23 legislatively adopted budget is projected to provide sufficient resources and staff for the Commission to remain outside the Order of Selection.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $24.3 million total funds and 69 positions (66.42 FTE) represents an 11.2% decrease from the 2019-21 legislatively approved budget, reflecting the completion and phase out of a $2.4 million case management migration project. The adopted budget includes:

- $506,931 General Fund to replace Other Funds from third-party cooperative agreements for the non-federal share to retain $1.9 million in Federal Funds and maintain current service level for in-school transition aged youth enrolled in secondary high school programs around Oregon.
- $375,334 total funds ($113,252 General Fund and $262,082 Federal Funds) and 0.04 FTE to bring a rehabilitation instructor position to full-time and fund pay equity allocations that varied from budgeted rates.
- $111,479 total funds ($391 General Fund and $111,088 Federal Funds) to reclassify an existing position and extend one limited duration Project Manager position (0.38 FTE) through March 2022 to allow sufficient time to complete the case management migration project.
- $246,914 Federal Funds for the establishment of one Accountant 3 position (1.00 FTE) to serve as a Grant Accountant to plan, coordinate, and monitor efforts to ensure that complex Federal and Other Funds financial reports are prepared in compliance with statutory, regulatory, and agency requirements.

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

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is an increase of $515,610 total funds (or 2.1%) over the 2021-23 legislatively adopted budget due to statewide employee compensation plan adjustments.

OREGON HEALTH AUTHORITY

Analyst: Robbins

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,466,696,946	3,580,224,176	3,483,809,469	3,804,926,153
Lottery Funds	17,999,344	17,338,086	18,641,986	19,670,002
Other Funds	8,623,162,407	8,170,116,328	9,560,625,992	10,649,713,259
Other Funds (NL)	274,869,903	40,000,000	40,000,000	40,000,000
Federal Funds	14,134,137,278	14,614,326,326	16,944,934,468	17,755,701,472
Federal Funds (NL)	106,196,261	102,729,051	102,729,051	102,729,051
Total Funds	**25,623,062,139**	**$26,524,733,967**	**$30,150,740,966**	**$32,372,739,937**
Positions	4,400	4,277	4,770	5,225
FTE	4,319.97	4,263.81	4,717.60	5,066.39

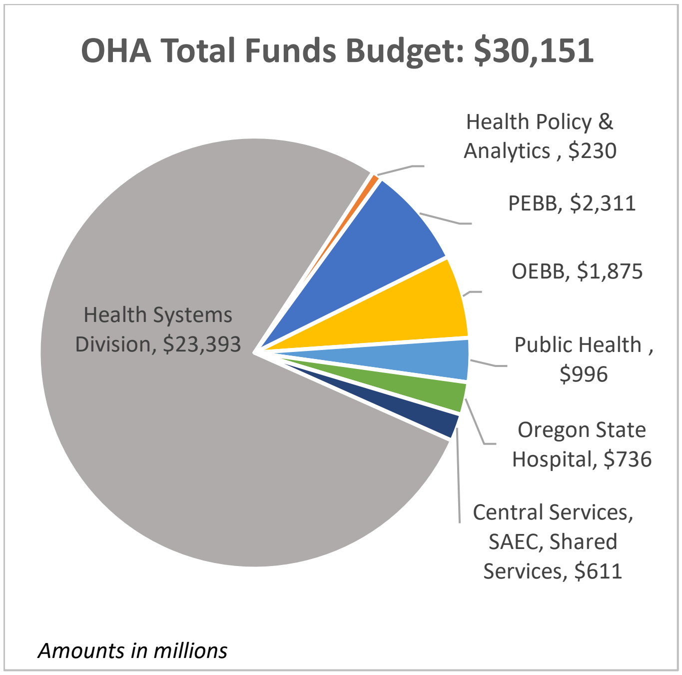
Overview

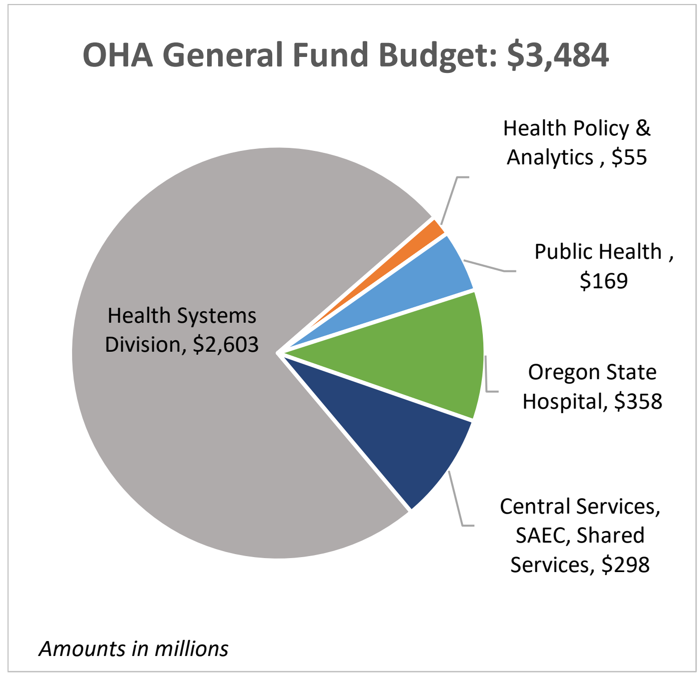
The Oregon Health Authority (OHA) was created in 2009 to consolidate most health-related programs into a single agency. The nine-member citizen-led Oregon Health Policy Board serves as OHA's policy and oversight body. OHA has three goals to transform the health care system in Oregon: improve the lifelong health of Oregonians; increase the quality, reliability, and availability of health care; and lower or contain the cost of health care to make it affordable to everyone. The agency works on these goals by administering publicly funded health benefits and other services through contracts with coordinated care organizations, insurers, medical providers, local governments, tribes, and community-based organizations.

OHA's budget currently purchases health benefits for over 1.6 million Oregonians, or nearly 40% of the state's population, who are enrolled in coverage through Medicaid and employer-sponsored coverage for public employees. The budget is organized into the following nine program areas:

- Health Systems Division – supports Medicaid health care benefits, which are provided mostly through the Oregon Health Plan (OHP), and non-Medicaid behavioral health services.
- Health Policy and Analytics Division – provides policy support, technical assistance, and access to health information statistics and tools to organizations and health care providers.
- Public Employees' Benefit Board (PEBB) – administers health insurance coverage for state government and public 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, and debt service payments.
- Shared Services – supports certain business functions for both OHA and the Department of Human Services.

OHA's budget represents the largest total funds budget of any state agency. Most of the agency's funding is reserved for payments to non-state government organizations for providing health care services to Oregonians enrolled in OHP, PEBB, and OEBB. The following charts summarize the 2021-23 legislatively adopted total funds and General Fund budgets for each program:





<u>Revenue Sources and Relationships</u>

OHA is funded with a mix of General Fund, Lottery Funds, Other Funds, and Federal Funds revenues. Most of the agency's $3.48 billion legislatively adopted General Fund budget is used to match federal revenue to support Medicaid expenses, pay for non-Medicaid behavioral health services, and operate the Oregon State Hospital. OHA's Lottery Funds budget is available from two separate distributions. First, the agency receives a statutory distribution of 1% of net lottery proceeds for gambling addiction prevention and treatment services. This distribution comprises $16.5 million of OHA's Lottery Funds budget. The second represents a portion of lottery proceeds constitutionally dedicated for veterans' services through the passage of Ballot Measure 96 (2016). OHA uses this funding, which totals $2.1 million in 2021-23, for veterans' behavioral health services pursuant to an interagency agreement with the Oregon Department of Veterans' Affairs.

The agency's 2021-23 Other Funds budget totals $9.6 billion. Prominent sources of this revenue include health care provider and insurer assessments used to match federal Medicaid revenue; the portion of tobacco tax revenues statutorily dedicated for Medicaid, mental health programs, and tobacco prevention and cessation services; a portion of the state's Tobacco Master Settlement Agreement funding allocated for Medicaid and behavioral health programs; marijuana, beer, and wine taxes statutorily dedicated for behavioral health services; and insurance premium payments used to support health care benefits administered by PEBB and OEBB. The agency also receives Other Funds revenue from various licensing fees, estate collections, third-party recoveries, pharmaceutical rebates, and charges for services.

The adoption of two statewide ballot measures in the November 2020 general election significantly increased Other Funds revenues available to OHA. Ballot Measure 108 increased cigarette and vaping taxes, which increased forecasted tobacco tax revenue available to OHA in 2021-23 by a net $463.6 million for Medicaid and tobacco cessation and prevention programs. Of this amount, $112 million is revenue carried over from the 2019-21 biennium. Ballot Measure 110 decriminalized the possession of limited amounts of controlled substances and diverted marijuana tax revenue from the original statutory purposes to begin a new substance use disorder treatment and recovery service model. This measure resulted in an estimated $302.2 million for new behavioral health resource networks in 2021-23, of which an estimated $52.8 million represents 2019-21 carryover revenue. OHA's Other Funds budget also grew by $23 million from increasing the type A and B rural hospital assessment from 5.5% to 6% and from a forecasted $82 million increase in insurer assessment revenue.

Federal Funds represent 57%, or $17.04 billion, of OHA's 2021-23 legislatively adopted budget. Over $16.11 billion of this amount supports Medicaid programs in the Health Systems Division and is linked to a combined $5.87 billion in General Fund and Other Funds matching dollars. The level of Federal Funds available to pay for Medicaid benefits is based on match rates, known as the Federal Medical Assistance Percentage (FMAP). Except for the fixed 90% FMAP available for Affordable Care Act caseloads, Oregon's FMAPs are decreasing, which results in additional state funds required to pay for Medicaid services. Offsetting these expenses is a temporary 6.2 percentage point enhancement to states' FMAPs based on federal policies adopted in 2020 in response to the COVID-19 pandemic. Additional detail on Oregon's FMAP changes is discussed in the Health Systems Division section.

Federal Funds also support a significant portion of the Public Health Division's budget through various federal grant programs, as well as through Medicaid match for contraceptive care and nurse home visiting services. The division's 2021-23 Federal Funds expenditure limitation includes an additional $33.9 million to support a new Centers for Disease Control and Prevention (CDC) grant for enhancing health equity and $56.8 million for a CDC Epidemiology and Laboratory Capacity grant to pay for ongoing COVID-19 contact tracing, testing, laboratory work, and data reporting. OHA has also continued receiving supplemental federal grant awards for the state's COVID-19 response activities, which were not accounted for in the 2021-23 legislatively adopted budget due to timing and needed to be addressed as part of mid-biennium budget adjustments.

Included in the overall Other Funds and Federal Funds amounts discussed above are certain expenditures designated as nonlimited, which can be increased administratively if the revenue is available. All nonlimited expenditures in OHA's legislatively adopted budget support the Women, Infants and Children (WIC) program in the Public Health Division. This includes $40 million in Nonlimited Other Funds revenue from rebates from manufacturers of infant formula provided to WIC participants and $102.7 million in Nonlimited Federal Funds from payments to support program services.

Budget Environment

Given the broad range of agency services and funding sources, OHA normally operates within a complex and dynamic budget environment. Demographics and economics, health care cost inflation and utilization, state and federal policies, and stakeholder interests greatly influence this budget. Since 2020, the COVID-19 pandemic and its disproportionate impact on tribal communities and communities of color have magnified the effect of these challenges and become the principal factors defining OHA's budget environment. The information below provides a snapshot of these issues.

COVID-19 Response – OHA is leading the state's public health response to the COVID-19 pandemic, with most of the responsibility falling to the Public Health Division. OHA and the Department of Human Services (DHS) also established the joint Coronavirus Response and Recovery Unit (CRRU) as a new temporary shared agency service in May 2020. The CRRU provides resources, coordination, and support for state and local agency response efforts. The unit is staffed by new hires and internal OHA and DHS staff who have accepted job rotations. The importance of the public health response and the resources dedicated to it have strained agency resources and resulted in the delay of other priority work.

Most of the agency's costs have been supported with federal revenue approved through the passage of multiple federal budget measures and reimbursement for 100% of eligible costs from the Federal Emergency Management Agency (FEMA). The various supplemental federal grants received by OHA have multi-year grant periods. FEMA reimbursement also remains available; however, the federal government will begin requiring states to provide a 10% match beginning July 2, 2022.

Health Equity – In response to the disproportionate impact the pandemic is having on racial minorities, as well as national movements protesting systemic racism, OHA is developing a plan to eliminate health inequities in Oregon by 2030. While the 2021-23 budget includes a series of new investments related to improving health equity, key elements of OHA's strategy to achieve the 10-year goal are still being defined and the long-term budget needs remain unclear. An important part of this effort, however, should be informed by the Oregon Health Policy Board's Health Equity Committee, which is responsible for developing best-practice policies that promote the elimination of health inequities and recommending measures for evaluating the success of this work.

Medicaid Policy – The federal revenue OHA receives is tied to a significant body of federal law and administrative rules. This is particularly true with Medicaid, which is governed by waivers of certain federal regulations that allow Oregon to tailor its Medicaid services to the unique needs of the state. Medicaid waivers and corresponding amendments must be approved by the federal Centers for Medicare and Medicaid Services (CMS). Most of OHA's General Fund budget is used to match federal revenue as part of these agreements. Consequently, General Fund reductions typically result in the loss of federal revenue and might jeopardize the state's ability to meet federal match requirements.

New Medicaid policies are impacting the 2021-23 budget environment. Federal legislation adopted in 2020 has temporarily increased state FMAPs by 6.2 percentage points for each calendar year quarter the federal COVID-19 public health emergency declaration remains in effect. In exchange for the enhanced rates, states are not allowed to impose new Medicaid eligibility restrictions or take away existing members' coverage during the emergency period even if they lose eligibility, except in limited circumstances. This requirement has caused Oregon's Medicaid population to significantly grow due to fewer people exiting the caseload. Since March 2020, OHA's Medicaid caseload has grown by over 250,000 members and is forecasted to continue growing until after the federal emergency expires. Based on the federal guidance available at the time, the 2021-23 legislatively adopted budget assumed the public health emergency would be in place until January 2022.

Economic Changes – When the economy is poor, demand for OHA services increases and program caseloads grow. Oregon's economy is also linked to the FMAP OHA receives for most 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 relative to the national average, Oregon's FMAP increases and saves state dollars. The federal government calculates each state's FMAP by using income trends from the three most recent calendar years of available data, which is more than one year removed from the effective date of a state's FMAP. For instance, the federal fiscal year 2021 FMAPs were calculated using income data from 2016, 2017, and 2018. Consequently, it is possible for a state's FMAP to decrease when its economy and tax collections are declining. Because Oregon's per capita income has outpaced the national average for the past several years, the state's FMAP has mostly declined since 2017, which has significantly increased the share of General Fund and other state revenue needed to support Medicaid programs.

Health Care Inflation and Utilization – OHA uses $26.18 billion of its $30.15 billion total funds budget to pay for comprehensive health care coverage through Medicaid, PEBB, and OEBB. Given the magnitude of these costs, even small inflationary adjustments result in significant cost increases. Health care inflation rates have typically outpaced general economic inflation rates, resulting in health care continuing to consume a larger share of the state's current service level budget. In 2012, the state began to cap Medicaid cost increases to contain spending and create more predictable budget environments. This approach led to a fixed Medicaid growth cap of 3.4% per member per year, which represented two percentage points below the national trend at the time. Although the national health care cost trend has fluctuated since then, the state has maintained the annual 3.4% cap and extended it to the PEBB and OEBB budgets.

Individuals' utilization of health care services and the way the state pays for those services are also important factors in OHA's budget. Historically, health care services were mostly paid according to a fee-for-service model, which based reimbursement according to the number and type of service provided to patients. This approach may incentivize providers to deliver more services that do not help patients 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 receive fixed monthly capitation payments for each enrollee regardless of the quantity and type of services utilized. By holding CCOs accountable for achieving defined quality health metrics, this model incentivizes CCOs to 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.

Stakeholder Interest – 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.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for OHA totals $30.15 billion, which includes $3.48 billion General Fund and 4,770 positions (4,717.60 FTE). This represents a total funds increase of 18%, General Fund increase of 41%, and staffing increase of 370 positions (397.63 FTE) compared to the 2019-21 legislatively approved budget. The largest factors for this growth are medical inflationary expenses, OHP caseload growth, and new program investments in behavioral health, public health, and health equity. The General Fund growth is net of significant savings from increased tobacco tax revenue available from the passage of Ballot Measure 108 (2020), the temporary 6.2 percentage point FMAP increase, and growth in OHP provider and insurer assessment revenue. The budget does not include cuts to existing programs or services and inflation for health care services is maintained at 3.4% per member per year.

Legislatively Approved Budget Update

Actions taken during the 2021 second special session and 2022 regular session increased OHA's 2021-23 budget by $321.1 million General Fund, $1 million Lottery Funds, $1.1 billion Other Funds, $810.8 million Federal Funds, and 455 positions (348.79 FTE). These changes result from budget rebalancing adjustments, program investments, and statewide employee compensation plan changes, which are discussed in more detail below.

Health Systems Division

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	1,461,855,824	2,530,322,378	2,602,694,351	2,808,390,785
Lottery Funds	17,474,448	17,053,396	18,096,546	18,924,562
Other Funds	3,871,406,824	3,462,887,421	4,365,280,908	4,508,083,930
Federal Funds	13,445,912,717	14,160,760,982	16,406,290,748	16,796,019,588
Total Funds	**$18,796,649,813**	**$20,171,024,177**	**$23,392,362,553**	**$24,131,418,865**
Positions	385	336	437	548
FTE	341.72	328.95	424.00	492.18

Program Description

The Health Systems Division's (HSD) is OHA's largest program in terms of budgeted resources, excluding staff. HSD is comprised of three main budget units: 1) Medicaid, which provides health care services to eligible low-income Oregonians; 2) Non-Medicaid Behavioral Health, which supports mental health and substance use disorder treatment for individuals who are ineligible for Medicaid, as well as services that are ineligible for Medicaid reimbursement; and 3) Program Support and Administration, which provides the operational support for both Medicaid and Non-Medicaid services.

Medicaid Programs

Program Description – Medicaid

Medicaid provides medical assistance to over 1.3 million Oregonians according to a partnership in which both the federal government and state government define program eligibility and services and share in the cost of providing services. The Oregon Health Plan (OHP) is OHA's primary Medicaid program with respect to the number of enrollees and level of program expenditures. Some individuals, however, are eligible for only limited (non-OHP) Medicaid services. Medicaid represents OHA's largest program budget in terms of state and federal resources, and program expenditures are made in the form of special payments to coordinated care organizations and health care providers.

Coordinated Care Model – Since 2012, most Medicaid services are administered by 15 coordinated care organizations (CCOs) covering all regions of the state. A CCO is a network 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. Approximately 90% of OHP members are enrolled in a CCO with the remaining 10% enrolled in fee-for-service, or "open card," based on certain exclusions.

OHA compensates CCOs through capitation rates, which are the per member per month amounts OHA pays CCOs to coordinate the health care of OHP members. The process and methodology used to develop the capitation rates is governed by federal and state regulations. The Centers for Medicare and Medicaid Services (CMS) requires Medicaid capitation rates to follow applicable actuarial standards. As opposed to traditional fee-for-service payments, the capitation payment model incentivizes CCOs to improve health outcomes for their members by focusing on prevention and chronic disease management, thereby reducing emergency room visits and other higher, costlier levels of care. During the first several years of Oregon's coordinated care model, CCOs had more flexibility with determining how they reimbursed their contractual health care providers, such as through traditional fee-for-service arrangements or alternative payment methodologies. Under the current five-year contract period known as CCO 2.0, CCOs must begin meeting minimum thresholds for the use of value-based payments.

Medicaid costs remaining under the fee-for-service model are directly paid by OHA to doctors, hospitals, federally qualified health centers, rural health centers, pharmacies, dentists, and other health care providers. Individuals who are eligible to receive care through the fee-for-service model are those who are eligible to be enrolled in a CCO but have chosen not to be based on special exemptions, such as tribal members, as well as individuals who are not eligible to be enrolled in a CCO but still qualify for certain coverage, such as those who receive limited services through the Citizenship Waived Medical program. Certain costs are also carved-out of the CCO model and reimbursed on a fee-for-service basis for all individuals. Examples include reimbursement for mental health drugs, adult mental health residential treatment services, and targeted case management.

OHP / Non-OHP Services – Two broad distinctions exist regarding the medical assistance programs budgeted in HSD Medicaid. First, Oregon Health Plan coverage includes comprehensive medical assistance as part of the state's Medicaid waiver under Title XIX of the Social Security Act, the Children's Health Insurance Program (CHIP) under Title XXI of the Social Security Act, the state Reproductive Health Equity Act, the state Cover All Kids program, and the new Cover All People program. While similar in key ways, CHIP has important distinctions in federal law compared to Medicaid. 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). States have the option of administering CHIP through a Medicaid expansion program or, as Oregon elected to do, through a separate state program.

In addition to income eligibility, a key difference between CHIP and Medicaid is how the federal government finances the program. Whereas Medicaid has no preset 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 three months starting in late 2017, many states, including Oregon, had to temporarily use carryover or redistributed funds to maintain CHIP services. In 2018, Congress reauthorized federal funding for CHIP through September 30, 2027.

OHP is largely governed by the federal-state partnerships for both Medicaid and CHIP because the overwhelming share of the OHP caseload meets the eligibility requirements for these programs. As with other states, Oregon has flexibility to design the state's Medicaid and CHIP policies within broad federal guidelines through waivers and state plans approved by CMS. The state plans and waivers detail program eligibility, 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 non-OHP component of the HSD Medicaid budget includes expenditures for individuals who are only eligible for limited services. These include adults who do not meet Medicaid's citizenship requirements but are eligible for emergent and prenatal care through the federal Citizenship Waived Medical program and individuals who are dually eligible for both Medicare and Medicaid and receive support through the Qualified Medicare Beneficiary program to help pay for their care. Non-OHP expenditures also include General Fund payments to the federal government to comply with requirements under the Medicare Modernization Act related to Medicare Part D outpatient prescription drug coverage for clients dually eligible for Medicare and Medicaid. Known as a "clawback," states pay the federal government an amount intended to represent most of the expenditures the state would have made had this coverage remained a Medicaid expense and not transitioned to Medicare.

Eligibility / Caseload Categories – Under federal law, anyone who applies for Medicaid coverage and meets the eligibility criteria established in a Medicaid state plan must be enrolled for coverage regardless of 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 Affordable Care Act (ACA), adults qualified for Medicaid according to specific life circumstances (categorical designations), such as being pregnant or having a disability, and by meeting income eligibility thresholds. Although the ACA expanded coverage to adults who do not belong to a categorial designation but meet Medicaid's other eligibility criteria, the categorical caseload designations remain and states must continue enrolling applicants according to these specific caseload designations when they are met. Only when an individual's eligibility status is based income and citizenship will that person be counted as part of the ACA caseload. This is important from a budget standpoint because states receive a higher federal match for the ACA caseload than they do for categorical caseloads.

Coverage	Eligibility Description	Income Eligibility (FPL)
Oregon Health Plan - Medicaid	**Children's Medicaid** – children age 0-18 covered eligible for Medicaid based on household income	138% - 190%
	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	190%

	Aid to the Blind and Disabled – individuals who are blind or have a disability and are eligible for federal Supplemental Security Income; income eligibility standards vary depending on eligibility category and do not consistently align with FPL; most members of this caseload are also eligible for Medicare	~74% - 250%
	Old Age Assistance – individuals who are age 65 or over and eligible for federal Supplemental Security Income; income eligibility standards vary depending on eligibility category and do not consistently align with FPL; most members of this caseload are also eligible for Medicare	~74% - 250%
	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	**Children's Health Insurance Program** – children age 0-18 ineligible for Medicaid with household income of up to 300% of FPL and who are not enrolled in other minimum essential coverage	300%
	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; HB 3352 (2021) renames this program as Cover All People and expands it to adults beginning July 1, 2022	300%
	Cover All People – comprehensive OHP services for adults age 19 and older who meet all Medicaid eligibility requirements except for immigration status; HB 3352 (2021) established this eligibility group effective July 1, 2022	138%
Other Medicaid Programs – limited services (non-OHP)	**Citizen 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; individuals eligible for these benefits will become eligible for comprehensive OHP coverage under the Cover All People program	138%
	Medicare Savings Program – 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%

Another change under the ACA is the method states use for determining income eligibility, which is largely measured against the federal poverty level. Prior to the ACA, income was determined based on a household's income earnings and assets, which was effectively a calculation of net worth. The ACA changed this by eliminating the asset test for most Medicaid caseloads and requiring income eligibility based on modified adjusted gross income (MAGI), which is a household's adjusted gross income with any tax-exempt interest income and certain deductions added back. Because MAGI is calculated using common taxable income data, CMS now requires states to conduct annual eligibility redeterminations for MAGI caseloads by first attempting to use information from available data sources, such as Internal Revenue Service tax records, without requiring enrollees to submit updated income information. 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.

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 prioritizes the 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.

Revenue Sources and Relationships – Medicaid

Federal Funds account for 73% of the HSD Medicaid budget. This revenue is available from three different federal match rates, known as Federal Medical Assistance Percentages (FMAP), for medical services provided to the following Medicaid and CHIP caseloads:

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 receive 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 contributing 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 was phased-out over federal fiscal years 2020 and 2021.

ACA FMAP – As part of the ACA expansion of Medicaid to adults earning less than 138% of the federal poverty level, the federal government reimbursed participating states for 100% of the costs for eligible individuals from calendar years 2014 through 2016. Starting in 2017, the ACA FMAP phased-down each year until reaching a floor of 90% in calendar year 2020.

Based on the magnitude of expenditures, even small FMAP changes can result in significant cost shifts between state and federal dollars. The estimated average FMAPs used in the 2021-23 legislatively adopted budget declined across the board compared to 2019-21. Taken together, this resulted in a cost shift of $250.4 million from Federal Funds to the General Fund.

Oregon's FMAPs (non-enhanced)	**2019-21 Average FMAP**	**2021-23 LAB Average FMAP**	**Change**	**2021-23 GF Cost** *(in millions)*
Non-ACA caseload	62.75%	60.06%	-2.69%	$151.7
CHIP caseload	81.58%	72.04%	-9.54%	$54.0
ACA caseload	90.75%	90.00%	-0.75%	$44.7
Total GF Cost - Legislatively Adopted Budget				**$250.4**

Other Funds account for 18% of the HSD Medicaid budget. Sources of this revenue include tobacco taxes, Tobacco Master Settlement Agreement funding, hospital and insurer assessments, the Oregon Health and Science University (OHSU) intergovernmental transfer (IGT) agreement, drug rebates, third-party recoveries, and other miscellaneous sources. Hospital and insurer assessments are the largest source of Other Funds revenue in HSD. The extent to which OHA is able to leverage this revenue reduces the amount of General Fund needed to match federal Medicaid dollars. Unlike the previous two biennia, there were no statutory changes to assessment rates or sunset dates during the 2021 legislative session. The existing statutory hospital and insurer assessment programs do not sunset until September 30, 2025 and December 31, 2026, respectively. However, the 2021-23 budget includes General Fund savings of $16.8 million based on increasing the type A/B rural hospital assessment from 5.5% to 6%, which OHA can do administratively, and recognizes Other Funds revenue growth and related General Fund savings associated with the growing OHP caseload.

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 federal government allows these types of arrangements between states and another government entity, in this case OHSU through its capacity as a public academic health center, as an alternative way to support a state's share of Medicaid costs. One of the multiple differences between the OHSU IGT agreement and hospital and insurer assessments is that state law requires OHA to reimburse OHSU for Medicaid services at no less than 87% of the hospital's costs, which HB 2010 (2019) increased from 84%. The 87% reimbursement will revert to the original 84% on July 1, 2025 based on the existing statutory sunset. Aside from this sunset, the OHSU IGT itself does not have a statutory sunset date and there are no structural changes to the model in 2021-23; however, similar to adjustments for hospital and insurer assessment revenue, the budget recognizes growing OHSU IGT revenue consistent with the growing OHP caseload.

Tobacco tax revenue now contributes a more significant share of Other Funds revenue to fund OHP expenses due to the passage of Ballot Measure 108 (2020), which increased taxes on cigarettes and vaping products. The increased taxes are forecasted to generate an additional net $414 million in Other Funds revenue dedicated for Medicaid. Of this amount, $102 million reflects estimated one-time carryover revenue from 2019-21 that will need to be phased-out in OHA's 2023-25 budget. Notwithstanding the large revenue increase from 2019-21 to 2021-23 due to the increased taxes, tobacco taxes remain a declining revenue source due to decreasing consumption and in-state cigarette purchases. Consequently, General Fund will routinely be needed to backfill tobacco tax revenues, which are budgeted according to the state revenue forecasts published by the Department of Administrative Services Office of Economic Analysis.

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 and performance metrics; local accountability for outcomes and costs; and sufficient 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 physical health and most behavioral health services was incorporated in the original CCO contracts in 2012. Mental health supported employment and assertive community treatment services were integrated in January 2013, alcohol and drug residential services 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. Mental health drugs, mental health residential treatment, and targeted case management remain carved-out of the CCO benefit package and are paid on a fee-for-service basis.

Another important part of Oregon's coordinated care model is ensuring CCOs help improve the health of their members. 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. OHA's budget supports an annual quality incentive pool based on a percentage, currently 4.25%, of aggregate CCO payments made to CCOs. By achieving some or all of the established measures, CCOs earn incentive payments. 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.

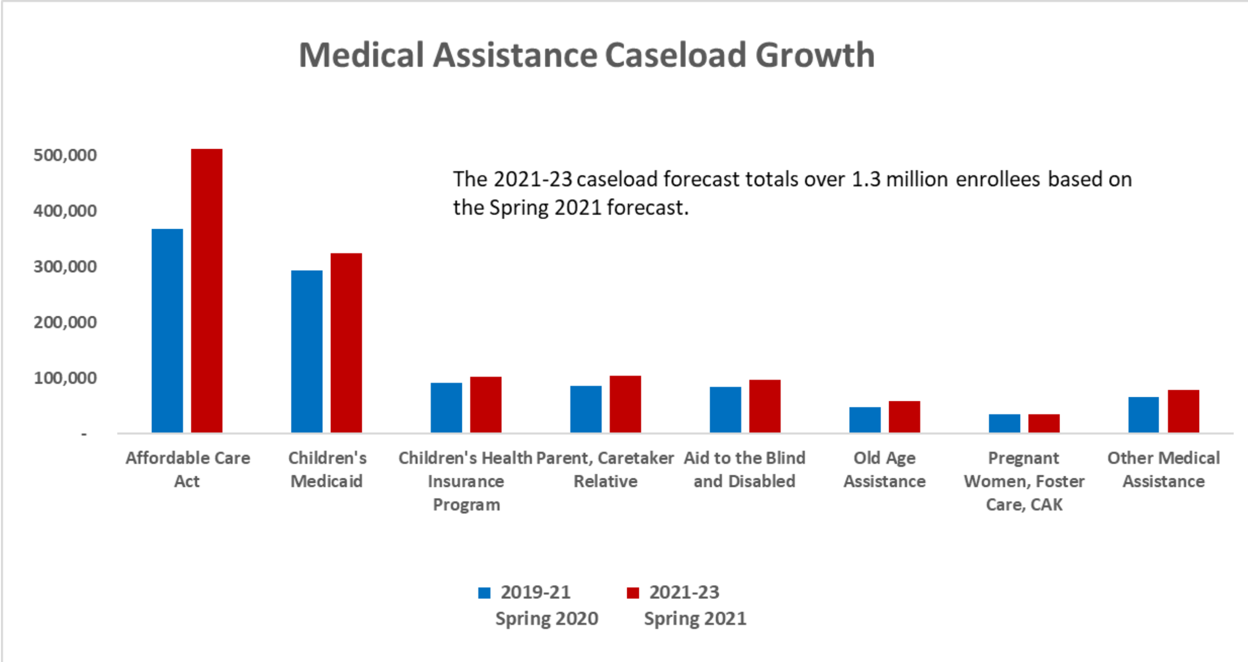
The quality incentive pool is awarded in two phases. In the first phase, CCOs can earn up to 100% of their quality pool by meeting or exceeding the established targets. Funds remaining after this distribution are then available as part of a “challenge pool” and distributed to CCOs according to their performance on specific challenge pool measures. 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.

Cap on Budget Growth – Oregon manages health care expenditures by capping CCOs’ rate of growth to an average 3.4% per member per year. The state implemented this approach in 2012 in exchange for $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. Despite the expiration of federal DSHP funding, Oregon has continued to budget for Medicaid cost growth at no more than 3.4% per member per year and has since expanded the 3.4% growth cap to the health care plans offered by the Public Employee’s Benefit Board and Oregon Educators Benefit Board.

The 3.4% growth cap may eventually change during the biennial budget process. During the 2019 legislative session, SB 889 established the Sustainable Health Care Cost Growth Target Program to implement a health care cost growth target to contain costs across all payers and providers, including commercial insurers and hospitals. The bill established a committee to create the methodology for measuring the cost growth target statewide; identify opportunities for lowering costs, improving the quality of care, and improving the efficiency of the health care system; recommend the governance structure for the program; and recommend accountability measures. According to the committee’s recommendations in January 2021, the annual per capita health care cost growth target should be 3.4% for 2021-2025 and then 3% for 2026-2030. If these recommendations are to be adopted, OHA will need to begin adopting additional cost containment strategies, which the committee’s recommendations also outline, ahead of 2026.

Caseload Forecast – The OHP budget is based on biennial caseload forecasts published by the Office of Forecasting, Research, and Analysis, which is a shared OHA/DHS service housed in the DHS budget. 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; however, similar to prior biennia, the 2021-23 budget includes a special purpose appropriation to the Emergency Board in case unforeseen caseload or other types of cost increases occur in OHA or DHS.

The predictability of Medicaid caseload levels in 2021-23 is substantially more uncertain than usual due to the temporary federal policies adopted in 2020 that remove states’ ability to take away or restrict existing Medicaid enrollees’ coverage during the federal COVID-19 public health emergency (PHE) even if they become ineligible (except in limited circumstances). The federal PHE remains in effect according to 90-day intervals and can be renewed by the Secretary of the U.S. Department of Health and Human Services. Since the Governor’s state emergency declaration on March 8, 2020, OHA’s Medicaid caseload has grown by over 250,000 members, which is largely attributed to members remaining on the caseload longer than they normally would have. Based on federal communication related to the minimum anticipated duration of the PHE, the spring 2021 caseload forecast used for development of the adopted budget assumed the continuous eligibility requirements would not begin to phase-out until the first quarter in 2022. Changes to this timeline has a direct impact on 2021-23 caseload levels and related costs.



Provider Assessments / OHSU Transfer Agreement – Oregon continues to face important policy decisions regarding how to finance the state-funded portion of Medicaid expenditures. Over the past three biennia, hospital and insurer assessments, as well as OHA's agreement with the Oregon Health and Science University, have been increasingly leveraged in place of General Fund to mitigate Medicaid cost growth and declines in federal matching revenue. Contrary to the previous two biennia, the Legislature was not faced with addressing the expiration of provider assessments during the 2021-23 biennium. Going forward, however, few options exist to increase revenue through provider assessments due to federal limitations on increasing hospital assessments beyond 6% of net patient revenue, which is the current rate for both the DRG and rural type A/B hospital assessments.

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 focus on services for people who do not qualify for OHP, as well as 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. The goal of these programs is 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 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, and residential and non-residential treatment facilities. As a result of the passage of Ballot Measure 110 (2020), new Behavioral Health Resource Networks will also begin providing these services. The budget provides funding for a variety of addiction 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 address opioid use disorder. Outpatient services also include Driving Under the Influence of Intoxicants education and treatment for first offender diversion referrals, as well as convicted repeat offenders. This program area also supports gambling addiction prevention and treatment.

<u>Revenue Sources and Relationships – Non-Medicaid Behavioral Health</u>
General Fund comprises $474.3 million, or 43%, of the Non-Medicaid Behavioral Health budget. Nearly all of this funding 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 a similar share of this unit's budget at $429.8 million, or 42%. The program receives this revenue from several statutory dedications, including marijuana, tobacco, and 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 share of the Non-Medicaid budget supported by Other Funds revenue has grown significantly since 2019-21 due to the passage of Ballot Measure 110 (2020), which redirected marijuana tax revenue previously dedicated in statute for schools, public safety, and local government for addiction treatment and recovery services provided by new Behavioral Health Resource Networks. The broader impact of the ballot measure is discussed in more detail below.

Federal Funds revenue represents 13% of the Non-Medicaid budget and is available for specific mental health and addiction treatment services. Most of this revenue is available from the ongoing Mental Health Block Grant, Substance Abuse Prevention and Treatment (SAPT) Block Grant, and State Opioid Response Grant programs. Federal policy requires 20% of the SAPT block grant be spent on prevention, which is carried out by the Public Health Division. The mental health and SAPT block grant programs have received supplemental one-time federal awards as part of the federal government's COVID-19 response. Some of these supplemental awards were announced subsequent to the finalization of the 2021-23 budget and needed to be incorporated as part of mid-biennium agency budget adjustments.

Lottery Funds support non-Medicaid behavioral health services from two distinct 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 $16.5 million in 2021-23 based on the May 2021 state revenue forecast, of which $14.5 million is budgeted in HSD Non-Medicaid Behavioral Health. The 2021-23 budget also includes $2.1 million in Lottery Funds for 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

Policy and Budget Changes – From an operational perspective, OHA's non-Medicaid behavioral health workload has increased significantly in 2021-23 due to the adoption of several major policies and investments. A prominent change resulted from the adoption of Ballot Measure 110 (2020) and related enabling legislation (SB 755 (2021)), which decriminalized the possession of small amounts of controlled substances and established a treatment and recovery model through new Behavioral Health Resource Networks. To pay for the BHRNs and addiction and recovery services, the measure created the Drug Treatment and Recovery Services Fund and redirected most marijuana tax revenue previously dedicated for schools, public safety, local government, and county behavioral health services to the Fund. In terms of financial impact, OHA's legislatively adopted budget includes $302.2 million for the Drug Treatment and Recovery Services Fund. This amount includes $52.8 million in carryover revenue from 2019-21, available on a one-time basis. The budget also includes $70.2 million General Fund to backfill the amount of marijuana tax revenue previously available for county behavioral health services.

OHA's budget for other existing and new non-Medicaid behavioral health programs and policies also increased significantly in 2021-23. This includes over $130 million General Fund ($220 million total funds) for residential treatment and housing, mobile response and crisis stabilization, interdisciplinary assessment teams, Aid and Assist community services, peer respite centers, and the 9-8-8 Suicide Prevention Hotline. In addition, the adopted budget includes a $49 million special purpose appropriation to the Emergency Board for behavioral health transformation and system alignment. Most of these investments, including the Ballot Measure 110 changes, include specific deadlines and instructions in statute or through budget report instructions. OHA's implementation of these new investments and policies, including those related Ballot Measure 110, remains ongoing and will require coordination and/or integration with existing Medicaid and non-Medicaid behavioral health services, as well as the hiring of a large number of new agency staff.

Demand vs. Capacity – In addition to the policy and budget changes discussed above, OHA is faced with evolving cost drivers in 2021-23. Two counteracting issues are the demand for behavioral health services in response to COVID-19 and constraints on provider capacity. Although funding approved in 2019-21 and 2021-23 has supported behavioral health services, such as crisis line capacity and residential treatment beds, the implementation of these investments will take time. Additionally, workforce shortages have continued to increase throughout the health care system, including with behavioral health providers. The 2021-23 budget includes funding to increase the number of behavioral health providers, particularly in terms of diversifying the provider network, but it does not include immediate support for workforce retention or other incentives. At the same time, the demand for mental health and substance use disorder services has increased during the pandemic. OHA's implementation of legislative priorities identified during the 2021 legislative session may be impacted by the need to divert staffing resources, as well as request additional funding, to address these emerging issues.

Non-Medicaid Caseloads – An 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 cover all eligible individuals and is largely funded according to caseload forecasts and the CCO rates process, most of the Non-Medicaid Behavioral Health budget functions similar to a grant program. This means the budget process does not generally require funding adjustments commensurate with the number of individuals treated in the community and is instead largely based on the level of available state and federal revenue available for the program.

However, a subset of the non-Medicaid caseload determined as a result of court actions is treated similarly in the budget process to the Medicaid caseload. OHA's budget is typically rebalanced based on forecasted changes to caseloads for individuals who are civilly committed or found guilty of a crime except for insanity (GEI). A third non-Medicaid mental health caseload also resulting from court actions are individuals determined to need restorative services to be able to aid and assist in their defense in criminal proceedings ("Aid and Assist").

The Aid and Assist caseload has historically been funded apart from the caseload forecasting process because the entirety of this population was understood to be admitted to the Oregon State Hospital. While this is no longer the case, no pricing model has been adopted to pay for these services similar to the payment models for civil commitment and GEI caseloads. Instead, OHA's has received General Fund over the past several biennia to provide grants to counties serving these individuals. Also, due to concerns regarding how budgetary changes tied to fluctuations in court-mandated mental health caseloads incentivizes (or disincentives) outcomes, budgetary adjustments based on forecasted changes to these caseloads have been paused since 2019-21 until OHA and stakeholders evaluate the forecast process and costs per case.

Program Support and Administration

Program Support and Administration ensures HSD Medicaid and Non-Medicaid programs have the administrative infrastructure, operational resources, and technology necessary to fulfill HSD's mission and statutory requirements. The unit organizes its work within the Business Operations and Business Systems sections. Business Operations oversees county contracts and grants, 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, including the Medicaid Management Information System, 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 funds the Actuarial Services Unit and 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), most of this function was transferred to DHS.

Legislatively Adopted Budget

The 2021-23 HSD legislatively adopted budget totals $23.39 billion, which includes $2.6 billion General Fund, $18.1 million Lottery Funds, $4.37 billion Other Funds, $16.41 billion Federal Funds, and 437 positions (424.00 FTE). This represents a total funds increase of 24.5% and General Fund increase of 78% compared to the 2019-21 legislatively approved budget. The largest source of budget growth is from the increase in Medicaid caseloads due to the temporary federal continuous eligibility provisions discussed above. The 2021-23 budget includes an additional $3.72 billion total funds, including $740.5 million General Fund, to support the increased caseload.

In addition to the Medicaid caseload, the following increases also contribute to HSD's budget growth:

- $302.2 million Other Funds and 12 positions (12.00 FTE) for implementation of new Behavioral Health Resource Networks and addiction and recovery services required by Ballot Measure 110 (2020). This funding includes one-time 2019-21 carryover revenue of $52.8 million.
- $130 million total funds ($65 million General Fund) for capital, start-up, and operational costs to increase the statewide capacity of licensed residential facilities and housing for people with behavioral health conditions.
- $129.5 million total funds ($19.3 million General Fund) to support a new substance use disorder Medicaid waiver, which the Centers for Medicare and Medicaid Services approved in April 2021.
- $121.4 million total funds ($24.9 million General Fund) to continue Oregon's Certified Community Behavioral Health Clinics demonstration project serving individuals with complex behavioral health needs.
- $23.6 million total funds ($20.9 million General Fund) for community-based restoration, housing, and wraparound services for individuals unable to aid and assist in their own defense at trial. This funding also includes $500,000 for a contract to conduct a root-cause analysis of the increase in this population, as well as 10 positions (10.00 FTE) for oversight and coordination of services. A separate investment was approved for

the Oregon State Hospital to increase its capacity to admit more Aid and Assist patients, which is discussed later.

- $16.7 million General Fund for mobile response and stabilization services for youth ($6.5 million), grants to local systems of care and tribal partners ($4.5 million), and interdisciplinary assessment team services ($5.7 million).
- $15 million total funds ($1.4 million General Fund) for a new managed care entity to improve care coordination and outcomes for participating tribal members.
- $9.2 million General Fund to add four 5-bed residential treatment homes and one 10-bed secure residential treatment facility to serve Oregon's young adult population (age 17 to 25); and $7.5 million General Fund to add 47 new psychiatric residential treatment service beds to address a capacity shortage for children with complex behavioral health issues.
- $6.7 million General Fund for reproductive health rates; $1.9 million total funds ($750,000 General Fund) for neonatal provider rates; $10.8 million total funds ($4.3 million General Fund) for behavioral rehabilitation services home rates; $9.8 million total funds ($3.3 million General Fund) for applied behavior analysis rates; and $3 million total funds ($1.2 million General Fund) for reimbursing intravenous nutrition costs.
- $2.9 million total funds ($1.1 million General Fund) to expand end-stage outpatient renal dialysis coverage for individuals eligible for emergent Medicaid services through the Citizenship Waived Medical program.

Although the budget does not include reductions to program services or eligibility, a series of adjustments recognize General Fund savings of $776.1 million, most of which involve fund shifts to Other Funds and Federal Funds. These include the following:

- $413.9 million shift to Other Funds for increased cigarette and vaping taxes under Ballot Measure 108 (2020). Of this amount, $102 million represents one-time carryover from 2019-21.
- $240 million shift to Federal Funds for the temporary 6.2% FMAP increase.
- $74 million shift to Other Funds and Federal Funds for increased insurer assessment revenue resulting from the growing Medicaid caseload.
- $18.6 million General Fund transfer to the Housing and Community Services Department for rental and wraparound services provided to individuals placed in permanent supportive housing. This funding is tied to new housing units funded in 2019-21.
- $16.8 million shift to Other Funds and Federal Funds based on increasing the fully reimbursable rural type A/B hospital assessment from 5.5% to 6.0% of net patient revenue.
- $12.8 million shift to Other Funds based on increased revenue from the Tobacco Master Settlement Agreement available for OHP.

Legislatively Approved Budget Update

Actions taken during the 2021 second special session and 2022 regular session increased HSD's 2021-23 budget by $205.7 million General Fund, $828,016 Lottery Funds, $142.8 million Other Funds, $389.7 million Federal Funds, and 111 positions (68.18 FTE). These changes result from budget rebalancing adjustments, program investments, and statewide compensation plan changes.

The approved budget rebalancing adjustments include federal match and revenue changes that save a combined $159.8 million General Fund, including $90 million from a 90-day extension of the 6.2% enhanced FMAP; $32.2 million from increases to Oregon's non-ACA and CHIP FMAPs; and $37.6 million from tobacco tax revenues (Other Funds) dedicated to OHP and mental health programs based on changes from the May 2021 to March 2022 state revenue forecasts. The tobacco tax forecast reflects higher than expected revenue collections from the increased taxes on cigarettes and vaping products established in Ballot Measure 108 (2020).

An increase of $125.4 million total funds and $16.3 million General Fund results from forecasted caseload changes between the spring and fall 2021 OHP caseload forecast. Overall, the updated forecast is higher by 10,650 members, with projected increases in the Old Age Assistance, CHIP, and Medicare Part D clawback payment forecasts, and declines in the Parent/Caretaker Relative and Aid to the Blind and Disabled caseloads. Other adjustments include an additional 69 positions (42.19 FTE), most of which support behavioral health programs and are funded from investments approved during the 2021 legislative. The noteworthy increases include 10 positions for drug treatment and recovery services, which are in addition to two positions added in other OHA programs for the same purpose; 34 positions for behavioral health metrics and accountability requirements established in HB 2086 (2021); seven positions for increasing community residential capacity (regional development); three positions for work related to co-occurring disorders, peer delivered services, and psychiatric residential treatment support; and two positions for the Oregon Essential Workforce Health Care Program.

As summarized below, the Legislature approved various investments in HSD, many of which are one-time, through the passage of both budget and policy measures. Unless otherwise noted, these investments were funded during the 2022 regular session.

- $132.3 million General Fund for one-time grants to improve recruitment and retention within the behavioral health provider workforce (HB 4004).
- $100.3 million General Fund and 12 positions for a revised Medicaid eligibility redetermination process and bridge health insurance coverage when Medicaid continuous eligibility requirements expire at the end of the COVID-19 federal public health emergency (HB 4035). Another $19.7 million General Fund is included in the Health Policy and Analytics Division.
- $100 million in one-time General Fund for distribution to community mental health programs for increasing behavioral health housing capacity.
- $30.3 million Federal Funds and 10 limited duration positions for various investments in Medicaid home and community-based services funded by one-time enhanced federal funds.
- $19 million General Fund for one-time payments to OHP dental providers; this increase was approved during the 2021 second special session (SB 5561) and funded by disappropriating a related special purpose appropriation established in HB 5006 (2021).
- $7.8 million General Fund and $15.2 million Federal Funds to expand Medicaid emergency services available under the Citizen Waived Medical program and extend the duration of postpartum coverage from two to 12 months.
- $5 million in one-time General Fund to purchase air conditioners and air filters for eligible households as part of broad package of heat relief investments (SB 1536).
- $1.6 million General Fund, $808,628 Federal Funds, and three positions (1.89 FTE) to fund two culturally and linguistically specific mobile health units as part of a pilot program (HB 4052).
- $1.5 million General Fund and $2.9 million Federal Funds to increase certain Medicaid reimbursement rates for applied behavior analysis services.

The Legislature also established a $42.5 million special purpose appropriation to the Emergency Board in HB 5202 (2022) for increasing behavioral health provider rates by an average of 30%. A $49 million special purpose appropriation established in HB 5024 (2021) for other behavioral health transformation activities was eliminated to support behavioral health investments approved in the 2022 session.

Health Policy and Analytics

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	43,695,295	52,035,211	55,515,071	79,050,011
Lottery Funds	24,912	25,983	25,983	25,983
Other Funds	31,082,825	32,485,860	127,420,711	49,213,191
Federal Funds	86,187,263	62,365,521	46,714,223	48,523,195
Total Funds	**$160,990,295**	**$146,912,575**	**$229,675,988**	**$176,812,380**
Positions	161	159	194	218
FTE	149.26	156.81	190.08	202.40

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 health care stakeholders. 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 analyzes utilization, quality, and financial data to evaluate OHA program performance; provides data for health system planning; 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 to achieve state and federal health reforms through the integration of health information technologies; leverages federal and other health IT funding opportunities; and increases collaboration across programs for planning and shared decision making, leveraged IT purchases, and coordination of service delivery.
- Office of Business Operations – responsible for HPA's operational functions. The office partners with 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) – administers health care insurance and other employment benefits, such as short-term and long-term disability, for employees in state government, universities, and the K-12 system. These programs are operationally situated in HPA but 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, Medicaid administrative expenses are matched at 50% while 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. HPA also receives federal grants for various health transformation activities.

The division's Other Funds revenue primarily comes from the Primary Care Provider Loan Repayment program. HPA also receives fee revenue 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. Additional Other Funds revenue is received from the National Association of Chronic Disease Directors, the American Cancer Society, and the Robert Wood Johnson Foundation.

Budget Environment

Most of HPA's programs were transferred from OHA's Central Services budget in 2013-15. Since then, the demands on the program have continually increased related to HPA's health care transformation work. Examples include advancing the coordinated care model within the CCO system and expanding it to PEBB and OEBB; providing the data analytics required to reduce the long-term cost of health care and address unique challenges, such as the opioid epidemic; developing policies for CCOs' five-year contractual periods; working on the state's Section 1115 Medicaid waiver renewal; and implementing legislative priorities related to establishing a statewide annual health care cost growth benchmark and a universal health care system in Oregon. HPA's scope grew in 2021-23 through the transfer of the Health Care Marketplace from the Department of Consumer and Business Services. The division will need to incorporate this program into OHA's existing health care programs to strengthen state government's health care purchasing power, which was a stated goal of this transfer.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for HPA totals $229.7 million, which includes $55.5 million General Fund and 194 positions (190.08 FTE). This represents a 42.7% total funds increase and 27.1% General Fund increase compared to 2019-21. The following are the major increases contributing to this growth:

- $80 million Other Funds from American Rescue Plan Act State Fiscal Recovery Funds and 14 positions (14.00 FTE) for incentive programs established in HB 2949 (2021) to increase the capacity and diversity of Oregon's behavioral health workforce.
- $14.9 million Other Funds and 18 positions (18.00 FTE) for the Health Insurance Marketplace and Compact of Free Association (COFA) Premium Assistance Program, transferred from the Department of Consumer and Business Services to OHA pursuant to SB 65 (2021). The COFA Premium Assistance Program subsequently closed as of December 31, 2021 due to the adoption of federal legislation that reinstated Medicaid eligibility for COFA members.
- $2 million General Fund to maintain service levels in the Health Information Technology Commons and Emergency Department Information Exchange programs due to the expiration of enhanced federal match for state health technology programs.
- $780,457 General Fund and four positions (2.84 FTE) to implement HB 2362 (2021), which requires OHA to review and approve mergers, acquisitions, and new affiliations among health care entities when these transactions meet certain financial thresholds.
- $516,768 General Fund and two positions (1.26 FTE) to extend the sunset on the 20-member Task Force on Universal Health Care from January 2, 2022 to January 2, 2023, which is required by SB 428 (2021).

Legislatively Approved Budget Update
Actions taken during the 2022 regular session resulted in a $23.5 million General Fund increase, $78.2 million Other Funds decrease, $1.8 million Federal Funds increase, and 24 additional positions (12.32 FTE) in HPA. The most significant change is an increase of $19.7 million General Fund and 14 positions (8.10 FTE) as part of the overall $120 million General Fund increase for Medicaid redeterminations and implementation of bridge health care coverage under HB 4035 (2022). The remaining adjustments mostly represent transfers of funding and positions into and out of the HPA budget structure, as well as additional position authority, for rebalancing HPA's budget with respect to investments approved during the 2021 regular session.

Public Employees' Benefit Board

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	2,178,723,940	2,307,227,919	2,311,370,412	2,326,601,853
Total Funds	**$2,178,723,940**	**$2,307,227,919**	**$2,311,370,412**	**$2,326,601,853**
Positions	20	20	20	20
FTE	19.50	19.50	19.50	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 140,000 state, university, local government, and special district employees and their dependents. Members include active employees, retirees, spouse and domestic partner dependents, child dependents up to age 26, and adult children with disabilities over age 26. PEBB also selects and administers life and disability insurance coverage for eligible employees. The Board consists of eight voting members, which include six appointed by the Governor and two serving as 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 state 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 with General Fund.

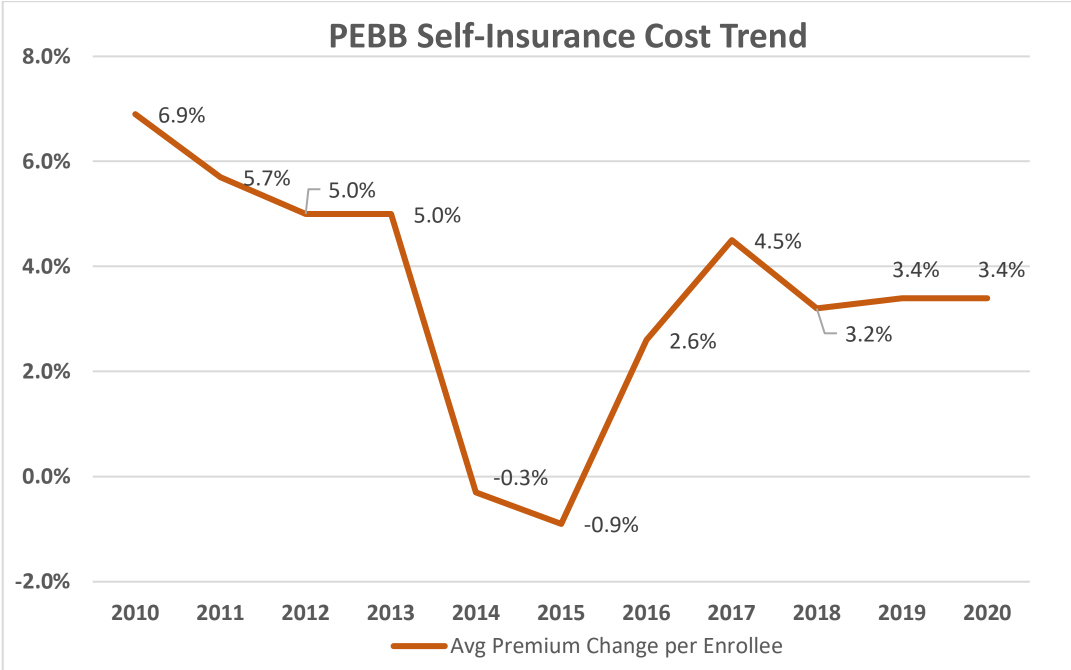
PEBB's operational costs are funded through an administrative assessment added to medical and dental insurance premiums and premium equivalents. By statute, the assessment cannot exceed 2% of monthly contributions from employees and employers. The assessment for the 2022 plan year is set at 1.15% and overall administrative expenditures are estimated at $16.2 million for the 2021-23 biennium. The administrative assessment and budget have increased compared to prior years to account for rising consulting expenses and to support the second phase of the PEBB/OEBB benefit management system replacement project.

In 2006, PEBB began transitioning employee coverage from traditional fully insured plans, which means an insurance carrier takes on the risk of paying for its members' medical claims, to self-insurance, which means PEBB takes on the risk of paying claims. Self-insured plans give the Board more flexibility in plan design and cost containment. With Moda's transition to self-insurance in the 2019 plan year, Kaiser currently offers the last fully insured medical plan. As of 2020, 81% of PEBB subscribers are enrolled in self-insured medical plans. For the fully insured plan, the premiums PEBB collects are passed through to the insurer who carries the risk on the plan.

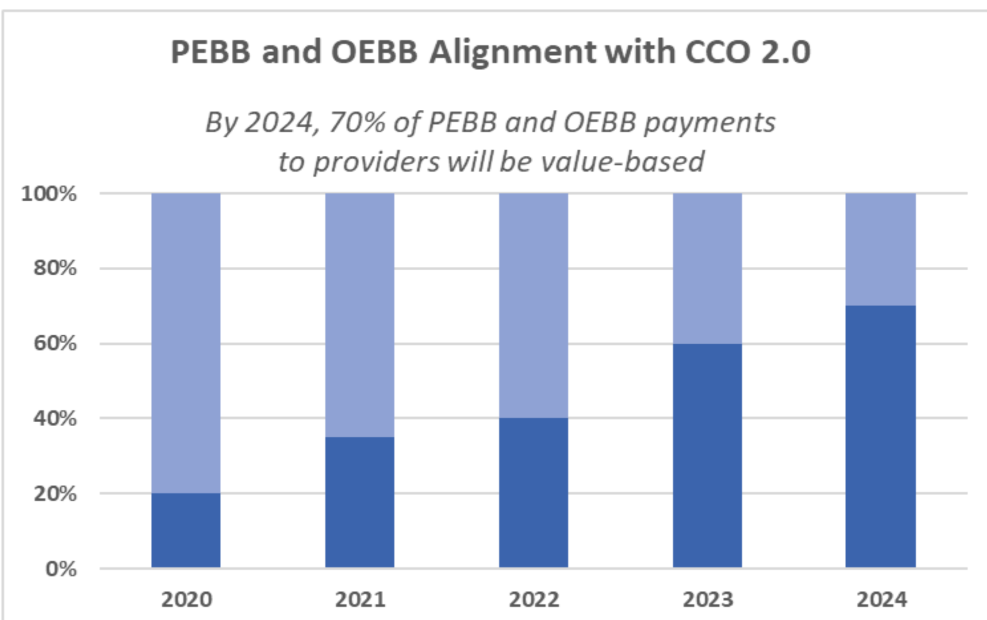
Budget Environment

PEBB maintains a Stabilization Account to control costs, subsidize premiums, and self-insure. The primary source of the account's revenue is unused premium contributions for employee benefits. This account also holds proceeds generated when PEBB's life insurance carrier changed from a mutual organization to a public corporation. PEBB also operates two flexible spending account programs and two commuter programs for employees and maintains an account for their administrative costs. The main revenue source for these accounts is forfeitures from participants.

The budget pressures for PEBB's employer-sponsored health care are unique compared to Medicaid coverage, with cost trends in Oregon's commercial insurance market typically being higher at 6% to 7% per year. Despite the higher cost trend, 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 codified the requirement for both PEBB and OEBB to adopt policies 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 to 3.4% or below since 2014.



A key 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 aligned with CCO 2.0. For example, PEBB is increasing the level of reimbursements based on value-based payments according to the same schedule planned for OHP reimbursement to CCOs. Under this plan, at least 70% of PEBB's and OEBB's payments will be value-based by 2024.



In 2021-23, PEBB will continue including quality measures and performance targets in health plan contracts to support better care and lower costs. The quality measures will be based on the Statewide Aligned Quality Measures developed by the Health Plan Quality Metrics Committee for CCOs, PEBB, OEBB, and the Oregon Health Insurance Marketplace. PEBB and OEBB contracts will include performance improvement targets on each measure and require health plans to put at risk a portion of the administrative fees or premiums paid to them, with retention of at-risk dollars contingent on the plan achieving its targets. Performance improvement targets for each measure will consider the health plan's current performance in comparison to national benchmarks, gold standard performance rates, and organizational priorities to achieve identified rates of improvement in specific areas of health care quality.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for PEBB is $2.31 billion Other Funds and 20 positions (19.50 FTE). No policy changes were adopted during the 2021 session impacting PEBB's premium rates and the rate of cost growth continues to be capped at 3.4% per member per year. The only significant adjustment is an increase of $4.2 million Other Funds to support PEBB's share of the next stage of the PEBB/OEBB benefit management system replacement project. This project began in 2019-21 with the goal of replacing the independent legacy systems used by both programs with a single solution that enhances security and user experience.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session increased PEBB's Other Funds expenditure limitation by $15.2 million. Of this amount, $7.2 million is for PEBB's share of the health care benefits available to part-time faculty at public universities and community colleges under SB 551 (2021). Although the employers and Higher Education Coordinating Commission fund the cost of the premiums, the benefit payments impact PEBB's and OEBB's Other Funds expenditure limitation. The increase also includes $4.8 million for PEBB's share of one-time costs for PEBB and OEBB to transition to a joint actuarial contractor; $2.5 million for the maintenance of PEBB's legacy benefit system; and $588,842 for PEBB's share of higher projected vendor costs for the benefit management system replacement project.

Oregon Educators Benefit Board

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	1,803,946,940	1,870,909,113	1,874,846,839	1,887,463,981
Total Funds	**$1,803,946,940**	**$1,870,909,113**	**$1,874,846,839**	**$1,887,463,981**
Positions	20	20	20	20
FTE	20.00	20.00	20.00	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 155,000 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 variety of plans. Employers can choose to offer all available plans or a subset of plans to their employees.

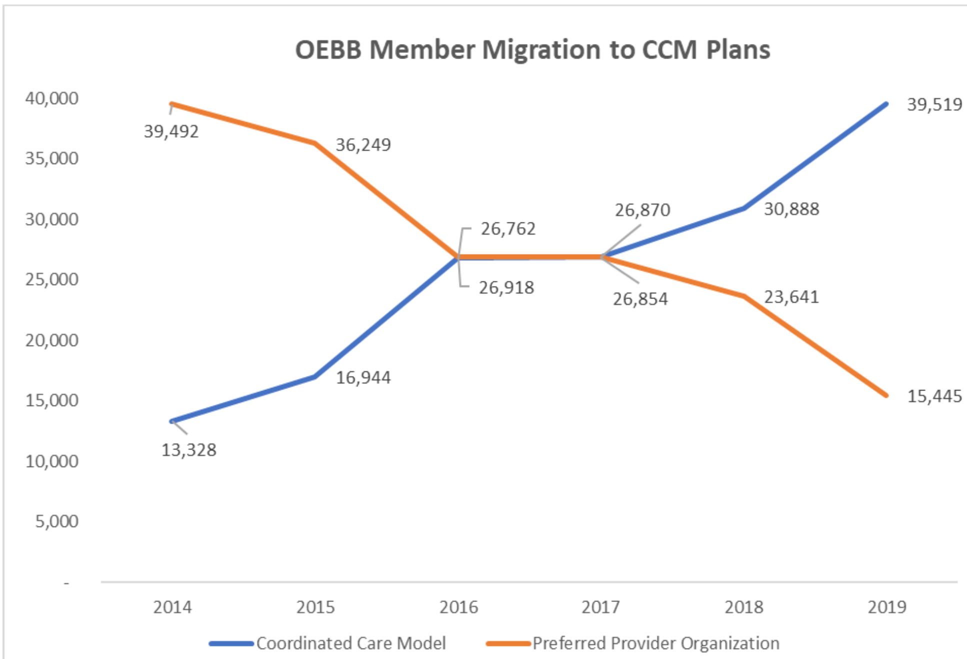
OEBB is comprised of at least 10 members appointed by the Governor and confirmed by the Senate. Of the 10 members, the following representation must be covered: two members representing school boards; two members representing education management; two members representing education non-management; one 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 with Other Funds revenue received from premium payments for all insured individuals. Operational costs are funded through an administrative assessment included the health, dental, and vision

insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. OEBB's assessment for the 2021-22 plan year is 1.3% and estimated administrative expenses total $17.4 million for the 2021-23 biennium.

Budget Environment

OEBB has mostly succeeded at keeping average cost growth below 3.4% since the 2011-12 plan year. Meeting the growth cap has been challenging due to the higher cost trends OEBB faces in the commercial insurance market. To keep costs down, OEBB has often relied on its breadth of available plans and member selection of lower cost options. However, containing costs over the long-term is challenging unless the underlying costs of care are addressed and health outcomes improved. Like PEBB, OEBB has taken steps toward this goal by migrating members from preferred provider organization (PPO) plans into coordinated care model (CCM) plans. Approximately 72% of OEBB's members were enrolled in a CCM plan as of 2019, which is up from 25% in 2014.



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 OHP.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for OEBB is $1.87 billion Other Funds and 20 positions (20.00 FTE). The budget caps OEBB's annual expenditure growth at 3.4% per employee. Similar to PEBB, the only material adjustment to OEBB's budget is an increase of $4 million to pay for OEBB's share of the PEBB/OEBB benefit management system replacement project.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session increased OEBB's Other Funds expenditure limitation by $12.6 million for the same issues impacting PEBB's legislatively approved budget changes. These include $7.2 million for OEBB's share of health care benefit payments to part-time faculty available under SB 551 (2021); $4 million for transitioning to a single actuarial contractor used by both PEBB and OEBB; $660,554 for the maintenance of OEBB's legacy benefit system; and $588,842 for the benefit management system replacement project.

Public Health Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	93,483,450	99,730,924	169,410,493	201,034,991
Other Funds	424,156,858	232,022,624	289,248,765	1,269,886,946
Other Funds (NL)	40,000,000	40,000,000	40,000,000	40,000,000
Federal Funds	503,021,179	294,929,948	394,495,862	802,218,166
Federal Funds (NL)	102,729,051	102,729,051	102,729,051	102,729,051
Total Funds	**$1,163,390,538**	**$769,412,547**	**$995,884,171**	**$2,415,869,154**
Positions	784	758	872	894
FTE	764.89	754.84	850.73	873.26

Program Description

The Public Health Division's (PHD) mission is to promote health and prevent the leading causes of death, disease, and injury in Oregon. The division manages more than 100 prevention-related programs that halt the spread of disease, protect against environmental hazards, and promote healthy behaviors. PHD's 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.

Oregon's public health system includes federal, state, county, and local agencies, tribal communities, community-based organizations, and other diverse partners working together to protect and promote the health of Oregonians. Public health services in Oregon are delivered directly by PHD 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 guiding the strategy, operations, scientific activities, communications, and policies of public health programs and ensures Oregon's public health system is effective. The office also oversees county health plans and the division's fiscal responsibilities and policies.
- Center for Prevention and Health Promotion – helps communities and residents achieve lifelong health, wellness, and safety through the prevention of chronic diseases, child developmental delays, injuries and unsafe relationships, and physical and behavioral problems. The center has the following five sections: Adolescent, Genetics and Reproductive Health; Health Promotion and Chronic Disease Prevention; Injury and Violence Prevention; Maternal and Child Health; and Nutrition and Health Screening.
- Center for Health Protection – protects the health of individuals and communities by 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.
- Center for Public Health Practice – protects the health of individuals and communities through infectious disease control and prevention, the provision of integrated care and treatment for persons living with HIV, the issuance of vital records, monitoring of population health, and ensuring emergency public health services in natural and human-caused disasters. 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.

Oregon's public health system relies strongly on the role of local public health authorities administered by counties. There are 32 local public health authorities in Oregon, one of which is a public health district covering three counties (Wasco, Sherman, and Gilliam). Two counties have returned their local public health authority status to OHA – Wallowa County as of May 1, 2018 and Curry County as of May 2, 2021. 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.

Revenue Sources and Relationships

Not counting new federal grants to help states respond to the COVID-19 pandemic, approximately half of the Public Health Division's budget is funded with Federal Funds, including Medicaid match for contraceptive care and voluntary universal home visiting, 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 the division's myriad federal grants, PHD is limited in terms of how a significant portion of its budget can be used. The division must routinely monitor and manage how these funds are spent, ensure 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 designated 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 29% of the budget is from Other Funds revenue, which is also received from various sources and must be managed within the confines of their statutory purposes. An important example is the various professional licensing fees PHD collects for regulatory activities. PHD must carefully manage expenditures to the established fee levels from year to year because they do not grow with the cost of inflation unless the Legislature adopts legislation raising the fee levels. Other examples of the division's Other Funds revenue include a portion of tobacco taxes dedicated to tobacco cessation and prevention activities, hospital and inpatient care licensing fees, vital record fees, and fees for the inspection of public places (e.g. food, pool, and lodging). Similar to its Nonlimited Federal Funds, the division's budget also includes Nonlimited Other Funds revenue supporting the WIC program. The Nonlimited Other Funds totals $40 million and represents rebates from manufacturers of infant formula.

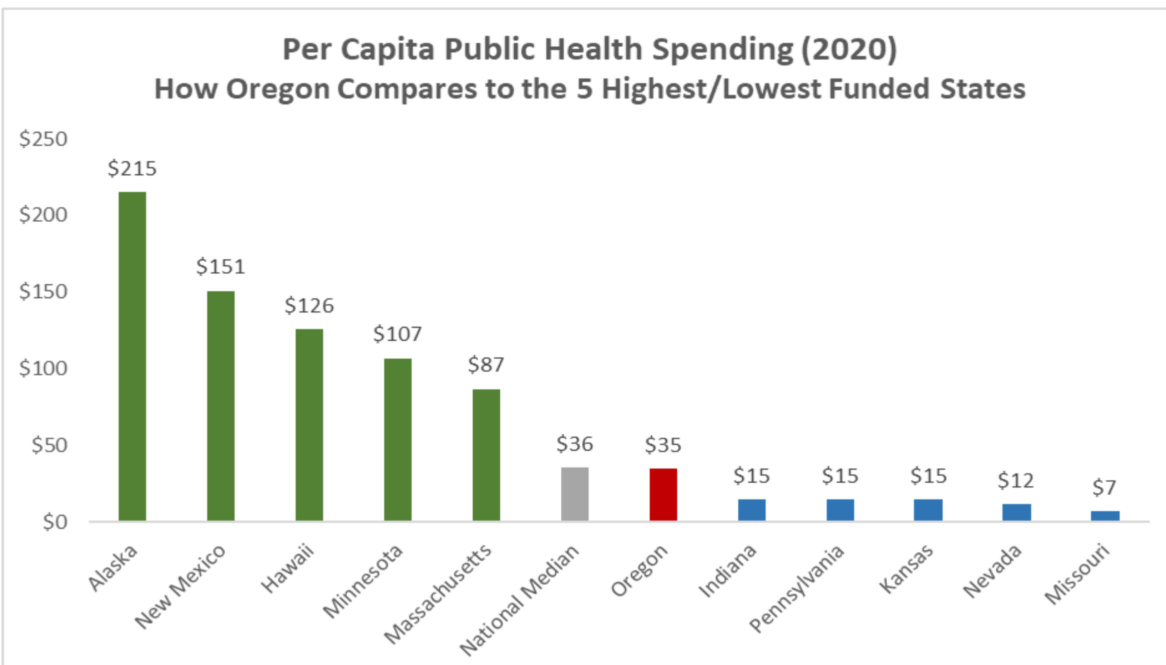
While historically a small portion of PHD's overall budget, the division's General Fund appropriation has significantly grown over the past three biennia. The 2021-23 legislatively adopted budget includes $169.4 million General Fund, which represents 17% of its total funds budget and is nearly triple the amount appropriated in 2015-17. Most of this growth is from investments in Public Health Modernization. Other contributing factors include $18.1 million appropriated over multiple biennia to backfill declining medical marijuana revenue that had been budgeted in non-medical marijuana programs; $11.8 million to expand reproductive health services (HB 3391 (2017)); $10 million to establish a new Healthy Homes Repair Fund (HB 2842 (2021)); and $7.5 million for a new universally offered home visiting program (SB 526 (2019)).

Budget Environment

The Public Health Division is leading OHA's response to the COVID-19 pandemic, which is expected to remain the agency's immediate priority through the 2021-23 biennium. Among other activities, the division has worked on messaging and outreach, setting guidelines for the public, coordinating the response of local public health authorities and other community partners, testing and contact tracing, vaccination campaigns, and modelling trends and projections. Although this ongoing effort and related expenses have been immense, most of the cost continues to be covered by the federal government, largely through FEMA reimbursement and supplemental awards for existing public health federal grant programs provided by the federal Coronavirus Aid, Relief, and Economic Security Act (Public Law 116-136), Consolidated Appropriations Act (Public Law 116-260), and American Rescue Plan Act (Public Law 117-2).

To-date, PHD has received over $600 in supplemental federal awards to address both direct costs attributed to the pandemic, such as contact tracing, testing, vaccine programs, as well as the indirect impacts on certain programs, including violence and injury protection programs, the Ryan White HIV/AIDS Program, the Rape Prevention and Education Program, and the prevention and control of sexually transmitted infections. While the extent to which the currently received federal awards will continue supporting PHD's core pandemic response activities is unknown, the existing federal funding is expected to sufficiently cover costs through at least the first year of 2021-23, if not the entire biennium.

Notwithstanding the large impact the availability of federal resources will continue having on PHD's budget environment, the division's state resources also play a meaningful role. According to State Health Access Data Assistance Center at the University of Minnesota, Oregon ranked 28th in per capita state funding for public health in 2020, with average funding of $35 per person. While this figure does not account for recent investments in Public Health Modernization or other factors in different states, it may suggest how Oregon has been positioned compared to other states to address public health threats. 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 level at 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 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 to fully implement public health modernization. Achieving an investment near this level is improbable in the near term due to budget constraints and the multitude of other statewide spending priorities. Subsequent to new investments made in 2017-19 ($5 million), 2019-21 ($10 million), and 2021-23 ($45 million), the Public Health Modernization budget stands at $60.7 million when accounting for inflationary increases. Among other activities, this funding will support communicable disease control and emergency preparedness activities carried out primarily through the same key partners contributing to the pandemic response: local public health authorities, community-based organizations, and tribes.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Public Health Division totals $995.9 million, which includes $169.4 million General Fund and 872 positions (850.73 FTE). This represents a 14.4% total funds decrease and 81.2% General Fund increase compared to 2019-21. The total funds decrease results from the phase-out of federal funding awarded in 2019-21 to help the state respond to the COVID-19 pandemic. The 2021-23 Federal Funds expenditure limitation will eventually need to be readjusted upon determining unspent amounts from these awards, as well as for new supplemental federal awards. The growth in General Fund is driven by the $45 million increase for Public Health Modernization.

Other major increases to the Public Health Division's budget include:

- $10 million General Fund and four positions (3.08 FTE) for a new program established in HB 2842 (2021) that provides grants to repair and rehabilitate residences for low-income households. The General Fund will be deposited into the new Healthy Homes Repair Fund and expended as Other Funds.
- $7.8 million total funds ($4.6 million General Fund) and four positions (3.50 FTE) for the continued rollout of the Universally Offered Home Visiting program established in SB 526 (2019).
- $2.2 million General Fund and 14 positions (5.52 FTE) to implement Ballot Measure 109 (2020), which legalized the use of psilocybin in controlled settings and requires OHA to regulate psilocybin products and services. This funding represents the estimated program costs for its first year; OHA will provide updated information during the 2022 regular session regarding expected costs for the remainder of the biennium. Once the program is implemented, costs will be supported with Other Funds revenue from a psilocybin sales tax and licensing fees.
- $49.6 million Other Funds available from increased tobacco taxes established by Ballot Measure 108 (2020) for tobacco use prevention and cessation programs. This funding includes $10 million in one-time carryover revenue from 2019-21.
- $2.6 million Other Funds and 12 positions (7.74 FTE) for regulatory activities related to the licensure of tobacco and inhalant delivery system retailers, as required by SB 587 (2021).
- $2.6 million General Fund and 2 positions (1.17 FTE) for the creation of three grant programs in schools, which is required by HB 2591 (2021). This funding builds on planning grant money approved in 2019-21 and will support grants to evaluate the need for school-based health centers in additional communities, telehealth in school-based health centers, and the implementation of a mobile school-based health center.
- $2.1 million Other Funds for statutory fee increases approved for radiation protection services, home health agency oversight, and the Prescription Drug Monitoring program.
- $1.4 million General Fund and six positions (3.75 FTE) to support Oregon's hospital nurse staffing law.
- $730,917 General Fund and three positions (3.00 FTE) to implement the provisions of HB 3000 (2021) related to testing cannabinoid products and implementing methods and procedures for determining whether a cannabis plant is marijuana or hemp.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session increased the Public Health Division's budget by $31.6 million General Fund, $980.6 million Other Funds, $407.7 million Federal Funds, and 22 positions (22.53 FTE). These changes mostly result from the following increases:

- $1.39 billion in Other Funds and Federal Funds expenditure limitations to recognize anticipated FEMA reimbursements ($982 million) and supplemental federal grant awards ($408.5 million) received for OHA's response to the COVID-19 pandemic.
- $15 million General Fund for a one-time distribution to Seeding Justice for reproductive health equity.
- $5 million in one-time General Fund for the Healthy Homes program.
- $4.1 million in one-time General Fund and nine permanent positions (12.86 FTE) for second-year implementation costs for the Psilocybin Program until the program is supported with Other Funds revenues in 2023-25.
- $1 million General Fund for hospital-based violence intervention programs to reduce community violence (HB 4045).

- $899,573 General Fund to conduct a study on the state's response to the COVID-19 pandemic (SB 1554).
- $339,334 in one-time General Fund and two positions (1.00 FTE) for the Health Licensing Office to establish a new licensing requirement for temporary staffing agencies working in certain health care settings (SB 1549). These costs will be supported with Other Funds once the program begins collecting licensing fee revenue.

Oregon State Hospital

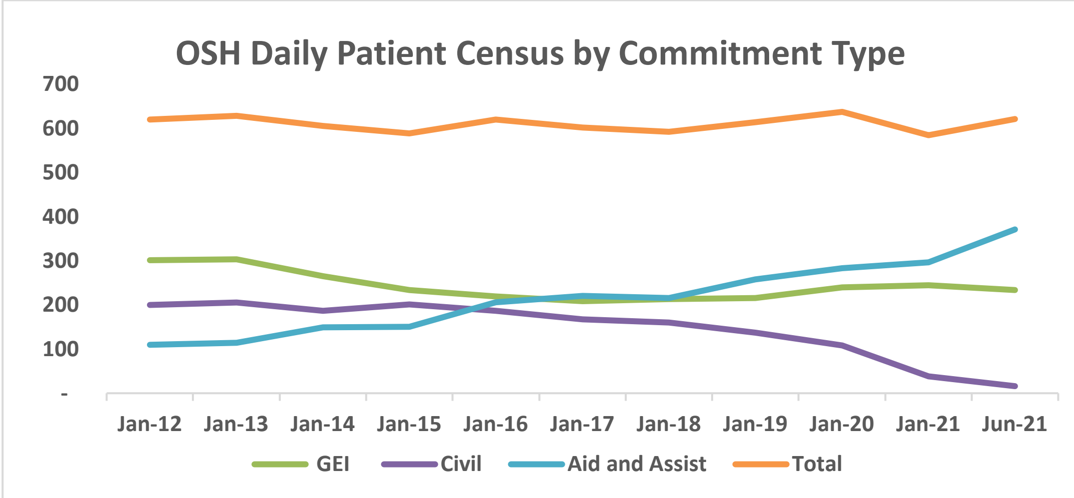
	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	609,350,589	603,741,583	357,971,802	390,728,025
Other Funds	41,058,715	39,289,680	341,395,268	341,833,409
Federal Funds	35,648,343	28,853,749	28,392,879	30,728,961
Total Funds	**$686,057,647**	**$671,885,012**	**$727,759,949**	**$763,290,395**
Positions	2,321	2,309	2,425	2,658
FTE	2,331.67	2,308.82	2,424.82	2,616.03

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 from all 36 counties admitted to OSH under court orders. Including adjustments made in the 2021-23 budget, OSH is budgeted to serve up to 758 individuals, with 592 beds in Salem, 150 beds in Junction City, and 16 beds at a secure residential treatment facility operated by OSH 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 generally fall into one of the following 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 and are found by a court to be guilty except for insanity because of having a qualifying mental health disorder at the time of engaging in the criminal conduct. The Psychiatric Security Review Board (PSRB) has statutory jurisdiction over GEI clients receiving treatment in OSH or who have been granted conditional release in the community.
- Aid and Assist – people who have been arrested but determined to be unable to participate in their legal proceedings due to a mental illness and ordered to receive restorative mental health services for them to understand the criminal charges against them and "aid and assist" in their own defense.



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, 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 tailored services in a variety of integrated and independent settings for patients to be released from the hospital when they are ready.

Revenue Sources and Relationships

With an exception to one-time Other Funds available in 2021-23, OSH's budget is usually supported primarily with General Fund, with limited amounts of Other Funds and Federal Funds revenues available for the hospital's services. Most of the hospital's General Fund is for staffing, contractual expenses, supplies, and facility costs required for patient care and operational support. A small portion ($0.8 million) is separately appropriated for capital improvements. Consistent with ORS 276.285, these funds are transferred to an Other Funds 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 on-going Other Funds revenue from insurance reimbursements and settlements for billable services for covered patients, principally through Medicare and, to a lesser extent, 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. One of the financial impacts of a shifting population at Oregon State Hospital is lower numbers of patients on Medicare being admitted. This has reduced the collection of Medicare revenue necessitating fund shift adjustments for the 2021-23 biennium.

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 limited reimbursement from Medicaid, which is available for services in Salem and Junction City for only eligible patients under age 21 or age 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 residential treatment facilities with more than 16 beds. This rule is known as the "Institutions for Mental Diseases (IMD) exclusion."

Fluctuations in available federal revenue must also be considered when developing the hospital's biennial budget. Similar to the HSD Medicaid budget, the hospital must account for changes in the Medicaid match rate in terms of both the limited Medicaid reimbursement available for patient care and the federal DSH payments, which are impacted by the same federal match rate. During years when the match rate increases, General Fund can be saved; conversely, General Fund must be increased when the match decreases in order to maintain patient services. The agency historically did not factor these changes into the current service level budget process for OSH, but began doing so in 2021-23.

<u>Budget Environment</u>
OSH's current budget environment is impacted by capacity constraints, the hospital's response to the COVID-19 pandemic, and health care workforce shortages. Finding the appropriate balance within the continuum of care for institutional and community-based services has proven difficult in Oregon. The advancement of pharmacological treatment and civil rights movements to improve patient protections and freedom have led to more mental health services provided in local communities than in large state-run institutions. Like other states, Oregon closed most of its inpatient psychiatric facilities and shifted resources to community treatment settings. As a result, the number of patients in state facilities decreased from over 5,000 in the 1950s to a current OSH population under 650. In the process, the role of OSH has changed from a focus on custody and care to providing active specialized psychiatric treatment.

Despite this change in approach, services in the community remain insufficient to address demand, particularly with high acuity patients directed to treatment through encounters with the criminal justice system. At least in part, this has led to an influx of Aid and Assist clients to OSH. According to a federal court ruling in 2003, the hospital must admit these patients within seven days or risk being found in contempt of court, which could invite judicial intervention into state government's administration of Oregon's mental health system. While $7.6 million was invested in community-based services in 2019-21 and SB 24 (2019) changed how Aid and Assist clients could be assigned to the hospital, these changes have not stemmed the increase in this population and OSH continues to struggle meeting the seven-day deadline. The continued increase in Aid and Assist patients, as well as an uptick in GEI patients, has had multiple consequences: 1) fewer civil commitment patients are able to be admitted to OSH, which has resulted in many patients being boarded in community facilities inappropriate for their needs; 2) the overall patient acuity at OSH has increased, which increases safety risks and requires additional staff to care for patients; and 3) OSH is admitting more patients who are less likely to have insurance, which has shifted costs to the General Fund.

This dynamic has become particularly pronounced during the COVID-19 pandemic. To reduce the risk of disease spread, the hospital has temporarily paused patient admissions multiple times. It also established a quarantine unit to isolate new patients, which has increased the amount of time patients spend at the hospital and added to the bottleneck in the admissions process. Shortfalls in direct care staffing have further complicated OSH's ability to safely care for all patients. Before the pandemic, OHA reported that an average of 13.4% of OSH direct care staff are absent each day, not including planned absences such as vacations. This requires other staff to work overtime. Not only have daily absences increased during the pandemic, the hospital – like many health care settings across the country – has experienced an increase in direct care staff resignations that have proven exceptionally difficult to backfill, causing its vacancy rate to rise, more mandated overtime for existing staff, and minimum staffing needs not always being met. To provide some alleviation, National Guard soldiers have twice been called upon to temporarily fill critical roles at the hospital since June 2021.

New investments were approved in the 2021-23 budget to address the capacity and workforce issues, but they will take time to implement. Funding and position authority were included to open the remaining two unbudgeted patient units in Junction City, which will increase OSH's capacity by 48 beds. With this investment, all patient units at the Salem and Junction City campuses are now fully funded. However, opening the two units will take longer than usual because of the widespread health care staffing challenges. Additional funding was also included in the Health Systems Division budget to establish more residential treatment beds in the community; however, the planning and construction of new community bedspace will not be immediate. To address its daily staffing shortfalls, the budget includes a $20 million appropriation to the Emergency Board. The allocation of this funding is contingent on OHA working with stakeholders to create a sustainable plan to increase employee retention and reduce daily absences.

Important context for the emerging issues discussed above is that OSH's budget environment is normally dictated by large staffing expenses. 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, mental health technicians, psychiatrists, and psychologists. Employee salaries and benefits comprise 83% of the hospital's budget and a significant amount of the hospital's services and supplies expenditures is also directly related to patient care, such as prescription drugs and food. Under state law, the hospital's staffing plan is set by a nurse staffing committee that determines staff-to-patient ratios based on patient acuity level and commitment type. A consequence of this 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.

Sufficient staffing is also 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. After conducting a review of OSH, USDOJ issued a highly critical report in January 2008. Many of the issues identified were addressed through the subsequent construction of the new OSH facilities, but concerns remain that patients are often not moved out of the hospital quickly enough. From a legal standpoint, this is important due to a 1999 U.S. Supreme Court ruling in *Olmstead v. L.C.* regarding discrimination against people with mental disabilities. In general, this ruling held that individuals with mental illness have a right to live in the community if such placement is appropriate, not opposed by the impacted individual, and can be reasonably accommodated.

The State of Oregon and USDOJ ultimately entered into a three-year agreement known as the Oregon Performance Plan, which required 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. Although the plan's data collection period ended July 1, 2019, OHA continues tracking the related outcome measures. The potential for USDOJ involvement in Oregon's mental health system otherwise remains and could be heightened should the existing issues faced by OSH and the overall continuum of care not improve.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Oregon State Hospital totals $727.8 million, which includes $358 million General Fund and 2,425 positions (2,424.82 FTE). General Fund normally comprises the overwhelming share of the hospital's funding; however, the 2021-23 budget leverages the one-time availability of American Rescue Plan Act (ARPA) State Fiscal Recovery Funds, which is budgeted as Other Funds, to save a commensurate amount of General Fund for eligible OSH expenses.

The budget includes two other material adjustments directly impacting OSH. First, $31 million General Fund and 110 positions (110.00 FTE) were added to open two 24-bed units at the Junction City campus. These additional units will enable the Salem campus to make more bed space available for Aid and Assist admissions. Second, a reduction of $6.6 million General Fund reflects savings from the closure of two eight-bed residential treatment cottages opened by OHA in 2019-21 to serve civilly committed patients transitioning from OSH to lower levels of care. The cottages are no longer needed for this purpose due to an ongoing decline in the number of civil commitment patients admitted to OSH.

The budget also includes a $20 million special purpose appropriation (SPA) to the Emergency Board to address shortfalls in direct care staffing levels experienced by the hospital. A budget note instructs OHA to work with relevant stakeholders to develop a sustainable staffing plan by November 1, 2021, which would be used to help guide decisions on the allocation of the SPA.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session increased the Oregon State Hospital's budget by $32.8 million General Fund, $438,141 Other Funds, $2.3 million Federal Funds, and 233 positions (191.21 FTE). The General Fund increase includes $24.5 million for personnel costs associated with statewide employee compensation changes, as well as $10.8 million for an additional 228 positions (188.52 FTE) to resolve shortfalls in nursing and other staff directly involved in the care and safety of patients. The cost for the new positions was funded by disappropriating $10.8 million from the related SPA to the Emergency Board established in HB 5024 (2021). The remaining changes reflect budget rebalance adjustments.

Central Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	49,118,921	40,206,308	59,271,743	76,700,344
Lottery Funds	32,710	34,116	34,116	34,116
Other Funds	52,791,465	2,828,831	9,155,539	4,643,153
Federal Funds	11,591,136	13,155,800	18,087,728	19,431,290
Total Funds	**$113,534,232**	**$56,225,055**	**$86,549,126**	**$100,808,903**
Positions	147	139	216	246
FTE	142.03	138.89	202.47	230.70

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 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 Relations Division – responsible for building strong relationships with the public, media, Legislature, and other agencies at the state and federal levels.
- 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.
- Equity and Inclusion Division – 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 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

The Central Services budget increased significantly in 2019-21 through actions taken by the Emergency Board. The additional funding provided was for addressing the disproportionate impact the COVID-19 pandemic has had on communities of color. Although the investments approved in 2019-21 were one-time only, addressing inequities in the health care system will continue being a prominent agency priority as a result of ongoing investments made in 2021-23, which are summarized below. Apart from this focus, the program's budget environment will continue to be impacted by any additional investments made during the 2021-23 biennium with respect to their impact on the agency's cost allocation statistics.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for Central Services totals $86.5 million, which includes $59.3 million General Fund and 216 positions (202.47 FTE). This represents a 24% total funds decrease and 21% General Fund increase compared to 2019-21. These changes are driven by the phase-out of the one-time Other Funds investments made during 2019-21 and new General Fund investments in 2021-23. The new investments include the following:

- $6.8 million total funds ($5.5 million General Fund) and 17 positions (15.08 FTE) to expand the Office of Equity and Inclusion to help the agency meet its 10-year goal of eliminating health inequities in Oregon.
- $17.9 million total funds ($9.4 million General Fund) and 43 positions (32.25 FTE) for information technology, incentives, and personnel costs associated with the collection of data on race, ethnicity, language, and disability (REALD) and sexual orientation and gender identity (SOGI) from health care entities, as required by HB 3159 (2021).
- $855,670 total funds (670,664 General Fund) and two positions (1.50 FTE) to implement HB 2359 (2021), which requires health care providers to work with health care interpreters to ensure patients have the option of being served in languages other than English.
- $650,000 General Fund to develop a plan to implement a public health option available to individuals and families in the individual health insurance market, and to small employers whose employees struggle with health care costs. This work is required by HB 2010 (2021).
- $496,117 General Fund to establish three health care navigator positions (3.00 FTE) to assist adults in custody who have certain health risks.
- $358,999 total funds ($287,814 General Fund) and one position (0.75 FTE) to assist with the creation of a sixth Traditional Health Worker category for Indian Health Care Providers.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session increased the Central Services budget by $14.3 million total funds, $17.4 million General Fund, and 30 positions (28.23 FTE). The largest changes include $3.3 million General Fund and 19 positions (17.68 FTE) for human resources functions related to increased staffing levels and new hiring across the agency. The remaining adjustments mostly involve budget rebalance changes, including transfers into and out of the Central Services budget structure, and statewide employee compensation plan changes.

State Assessments and Enterprise-wide Costs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	209,192,867	254,187,772	238,946,009	249,021,997
Lottery Funds	467,274	224,591	485,341	685,341
Other Funds	27,189,189	30,415,475	28,029,779	31,069,453
Other Funds (NL)	234,869,903	-	-	-
Federal Funds	51,776,640	54,260,326	50,953,028	58,780,272
Federal Funds (NL)	3,467,210	-	-	-
Total Funds	**$526,963,083**	**$339,088,164**	**$318,414,157**	**$339,557,063**

Program Description
State Assessments and Enterprise-wide Costs (SAEC) is the budget structure 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 facility costs, including rent, maintenance, and utilities, as well as funding to pay for shared services provided by both OHA and the Department of Human Services. Debt service costs became part of the SAEC budget in 2013-15 and support the repayment of Build America 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 $318.4 million total funds budget, $60.4 million supports debt service, which is entirely General Fund. 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 2021-23 legislatively adopted budget for SAEC totals $318.4 million, which includes $238.9 million General Fund. This represents a 40% total funds decrease and 14% General Fund increase compared to 2019-21. The large total funds decrease is due to the phase-out of Nonlimited Other Funds expenditure limitation included in 2019-21 for bond refinancing. The General Fund increase is largely due to inflationary expenses necessary to maintain current service levels.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session increased the SAEC budget by $21.1 million total funds and $10.1 million General Fund. These changes result from budget rebalance adjustments and the SAEC portion of new investments approved for other programs and state employee compensation plan changes.

Shared Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	192,805,651	192,049,405	205,885,021	222,924,593
Total Funds	**$192,805,651**	**$192,049,405**	**$205,885,021**	**$222,924,593**
Positions	562	536	586	621
FTE	550.90	536.00	586.00	612.32

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. Both agencies have a Shared Services budget structure to support the coordinated administrative services available to all OHA and DHS programs. The budget is reflected entirely as Other Funds expenditure limitation, which is funded with General Fund, Lottery Funds, Other Funds, and Federal Funds revenues budgeted in the programs that pay for the services offered.

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 agency employees and partners; and provides the information infrastructure and technical support necessary to maintain key business services, such as payroll distribution, vendor payments, and personnel actions. Whereas OIS is budgeted within OHA's Shared Services structure, this budget also supports OHA's use of the following services budgeted within DHS's Shared Services structure: Office of Forecasting, Research, and Analysis; 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
Like Central Services and SAEC, Shared Services expenditures are allocated 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 or increased spending approved in the shared administrative services operations result in corresponding adjustments elsewhere in the OHA and DHS budgets.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for Shared Services totals $205.9 million Other Funds and 586 positions (586.00 FTE). The budget represents a 7% increase compared to 2019-21, which is largely due to increased expenditure limitation of $10.9 million to support maintenance and operations costs for the ONE Integrated Eligibility/Medicaid Eligibility project for both OHA and DHS. While most of these costs are funded with General Fund and Federal Funds in DHS, a small portion is funded from the Health Systems Division budget. Other adjustments to the Shared Services budget include an increase of $1.7 million for expenses related to upgrading OHA's behavioral health information technology system (COMPASS Modernization) and $0.8 million the Provider Time Capture project, which is mostly funded in DHS.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session increased the Shared Services budget by $17 million Other Funds and 35 positions (26.32 FTE). These changes result from budget rebalance adjustments, the Shared Services portion of new investments approved for other OHA programs, and statewide employee compensation plan changes.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	--	$7,992,750	$7,992,750
Total Funds	**--**	**--**	**$7,992,750**	**$7,992,750**

Program Description
The Capital Construction program plans, designs, and constructs facilities projects with a cost of more than $1 million. OHA's current Capital Construction budget consists of two projects at the Oregon State Hospital (OSH) approved in the 2021-23 biennium. One of these projects includes the construction of a well water treatment facility and potable water storage tanks at OSH's Salem campus to be used as a backup supply in the event its supply from the city is shutoff due to a natural disaster or becomes contaminated. The Salem campus currently has emergency generators capable of supplying power to the entire facility indefinitely and a propane backup system to provide heating and cooking fuel in the event of curtailment of natural gas, but does not have a backup supply of potable water. The estimated project budget totals $4.5 million Other Funds.

The second project involves the replacement of 41 automated medication dispensing cabinets throughout patient care areas at OSH's Salem and Junction City campuses. These cabinets are the secure method by which medications are dispensed. They are integrated with electronic health records and control access to medications at the individual patient level to ensure patients receive the correct medication in the proper dosage at the right time. The budget for this project totals $3.5 million Other Funds.

Revenue Sources and Relationships
The Other Funds revenue available to support both projects include proceeds from the issuance of general obligation bonds authorized under Article XI-Q of Oregon's Constitution. SB 5506 (2021) provides six-year expenditure limitation for the projects.

Budget Environment
As a 24-hour psychiatric facility with over 700 patients and staff present during any given shift, OSH's Salem campus is at risk of significant medical and sanitary issues if it loses water for an extended period of time. The cyanotoxin contamination of Salem's city water in 2018, as well as the COVID-19 pandemic, highlighted the need for the hospital to address largescale risks to patients and staff. Prior to pursuing this project, OSH discussed alternative potable water supply options with the City of Salem and concluded the only viable option was to establish a self-sustainable source of potable water through the construction of a well water treatment facility. The Junction City campus is newer than the Salem campus and already has a backup water supply.

The replacement of equipment at the end of its lifecycle is also necessary for patient safety, which underscores the need to replace both campus's automated medication dispensing cabinets. Without medical dispensing cabinets that operate in a safe manner, the hospital's accreditation with The Joint Commission and Centers for Medicare and Medicaid Services could be in jeopardy. The existing equipment at the hospital was largely purchased when the Salem and Junction City campuses opened in 2011 and 2015, respectively, or was transferred from the old facility.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of approximately $8 million Other Funds establishes the expenditure limitation necessary to support OHA's estimated Capital Construction expenditures for the establishment of a well water treatment facility at the OSH Salem campus and the purchase of medical dispensing cabinets at both the Salem and Junction City campuses.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for OHA's Capital Construction expenses remains the same as the legislatively adopted budget.

DEPARTMENT OF HUMAN SERVICES

Analyst: Jolivette

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,721,468,665	4,506,466,106	4,636,217,279	4,807,184,398
Other Funds	904,378,181	639,640,131	810,415,179	942,725,953
Federal Funds	6,463,239,330	6,459,542,544	7,071,321,049	7,677,808,696
Federal Funds (NL)	2,889,345,331	1,939,345,331	2,975,868,127	3,681,868,127
Total Funds	**$13,978,431,507**	**$13,544,994,112**	**$15,493,821,634**	**17,109,587,174**
Positions	9,574	9,693	10,140	10,454
FTE	9,365.74	9,633.66	10,032.41	10,274.43

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.

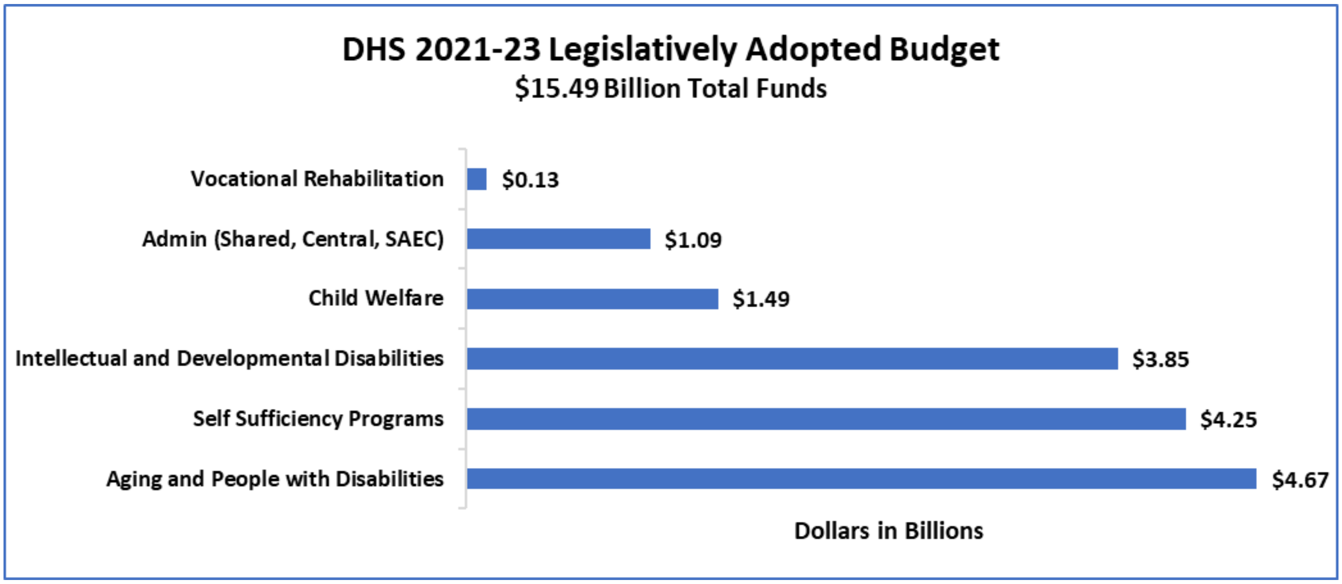
To provide services, the agency operates through five distinct separate program areas:

- 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 2021-23 legislatively adopted budget level, DHS has the second largest budget of any state agency, after OHA. DHS makes up 18.2% of the statewide General Fund budget and 13.7% of statewide total funds spending.

The following chart shows how the agency's 2021-23 legislatively adopted budget of $15.49 billion total funds is allocated across programs and budget structures:



Revenue Sources and Relationships

For the 2021-23 biennium, General Fund supports 29.9% of DHS' budget. Almost all of the General Fund is used as match or to meet state maintenance of effort requirements for receiving Federal Funds. The overall General Fund share of DHS' budget is 3.3% higher than it was in the 2019-21 biennium and includes General Fund added to offset one-time non-General Fund revenues used in 2019-21, General Fund savings from one-time revenues assumed in the 2021-23 biennium, and ongoing or new General Fund investments.

Other Funds revenues support 5.2% 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 64.8% of DHS expenditures for the 2021-23 biennium. The largest single Federal Funds source is for the Supplemental Nutrition Assistance Program (SNAP, previously known as food stamps), which makes up 19.2% 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 2021-23 are based primarily on federal fiscal year 2021 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 2021-23, the FMAP adjustment is not working to the state's advantage; the federal matching share will decrease from a biennial average of 61.25% in 2019-21 to 60.06% in the 2021-23 biennium. In addition, recent projections show the state's FMAP dropping again in federal fiscal year 2023, which will lower the 2021-23 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. From federal fiscal year 2019 to 2023, Oregon's base FMAP rate is projected to decline by 2.97 percentage-points, which is the second largest projected decrease for a state over that time period.

The Families First Coronavirus Response Act (FFCRA) provides states a temporary 6.2% increase in the base FMAP. This enhanced rate took effect January 1, 2020 and continues through the last day of the calendar quarter in which the public health emergency terminates. In so doing, the FFCRA has relieved some of the pressure on the state General Fund, allowing resources to be redirected to other activities, such as temporary provider rate increases and wildfire disaster relief and recovery efforts. The adopted budget assumed Oregon will receive the enhanced FMAP through March 31, 2022.

The American Rescue Plan Act (ARPA), in addition to funds for general state and local fiscal relief, provides enhanced federal funding for state Medicaid spending on Home and Community Based Services (HCBS). Beginning April 1, 2021 and through March 31, 2022, states are eligible to receive a 10% increase in their FMAP for specified HCBS. In contrast to the public health emergency enhanced rate in FFCRA, which allows states to redirect General Fund savings to other purposes, ARPA requires states to use state funds equivalent to the amount of the federal funds attributable to the increased FMAP to implement one or more activities to enhance, expand, or strengthen HCBS, including long term services and supports. The state funds equivalent is estimated to be about $270 million. On June 11, 2021, DHS submitted Oregon's plan for the use of these funds to the Centers for Medicare and Medicaid Services (CMS).

<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 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 align 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 an 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 2021-23 legislatively adopted budget is based on the Spring 2021 caseload forecast, which was released in May 2021. 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 80% of the DHS budget will be spent directly on provider services and in direct payments to clients. The application of inflationary, cost of living, or other adjustments to provider reimbursement rates vary by program but most do not have a formal review cycle or consistent pricing methodology. Typically, the rates are reviewed in response to federal actions, stakeholder concerns, or when access to services becomes an issue. An ongoing legislative concern tied to rates has been on how those rates translate into direct care worker wages.

About 13% 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. 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.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget for the Department of Human Services is $4.64 billion General Fund, $15.49 billion total funds. Compared to 2019-21, General Fund increased 24.6% and total funds increased 10.8%. The 10,140 positions approved for 2021-23 reflect a 5.9% increase (566 positions) over the 2019-21 level; the percentage increase for FTE is greater, at 7.1% (666.67 FTE), due to the roll-up of positions phased in over the 2019-21 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:

- Provides additional funds in Self Sufficiency for services to survivors of domestic violence and sexual assault, extended refugee case management and employment support services, and expansion of the 2-1-1 information service.
- In Child Welfare, adds funding and positions to expand the Independent Living Program, establish a new training unit, and administer community-based prevention services to children and families.
- Provides resources in Vocational Rehabilitation to improve collection of reimbursement from the Social Security Administration that will be used to expand services in the Ticket to Work program.

- 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 and funds rate increases for long-term care providers.

Eight budget notes were approved in budget bills impacting the agency's 2021-23 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:

- Special purpose appropriation established in SB 5529 to address double-fill positions in the Child Welfare program; SB 5529 (2021); report to the Joint Committee on Ways and Means Human Services Subcommittee during the 2022 legislative session on progress filling positions.
- Foster care respite services; SB 5529 (2021); report to the Joint Committee on Ways and Means Human Services Subcommittee during the 2022 session on the status of implementation of foster care respite services.
- Extended case management and employment supports; SB 5529 (2021); provides direction regarding use of $4.3 million General Fund approved for services to individuals granted an immigration status that has been approved for services by the federal Office of Refugee Resettlement.
- Long-term care capital improvement and emergency preparedness program; SB 5529 (2021); directs the agency to adopt rules for administration of the program, and report during the 2022 session to the Joint Committee on Ways and Means Human Services Subcommittee.
- Long -term care workforce development and training; SB 5529 (2021); directs the agency to work with appropriate stakeholder groups to develop or expand programs that will improve the skill level and training of workers in the long-term care sector, and report to the Interim Joint Subcommittee on Human Services on the implementation of these programs.
- Access to mental health treatment services; SB 5529 (2021); directs the agency to develop strategies to remove barriers that prevent individuals with mental illness from accessing long term services and supports, and report to the human services committees of the Legislative Assembly no later than February 28, 2022.
- Investments in home and community-based services and long-term care services and supports; SB 5529 (2021); provide interim reports to the appropriate interim budget committee (either the Interim Joint Committee on Ways and Means or Emergency Board) throughout the 2021-23 interim on the status of implementation of the Home and Community-Based Services (HCBS) and Long-Term Services and Supports (LTSS) investment plan related to Section 9817 of the federal American Rescue Plan Act.
- Office of Developmental Disabilities' new rate model funding; HB 5006 (2021); directs the agency to fully fund provider rates for adult and children's group home services, day support services, employment services, attendant care, supported living, and non-medical transportation using funds made available through the temporary 10% FMAP increase to cover the 2021-23 costs.

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.

Legislatively Approved Budget Update

Actions taken during the 2021 second special session and 2022 regular session increased the DHS budget by $171 million General Fund, $132.3 million Other Funds, $606.5 million Federal Funds, $706 million Federal Funds Nonlimited, and 314 positions (242.02 FTE). These changes result from new program investments, as well as budget rebalancing adjustments to account for updated federal match rates, caseload levels, revenue forecasts, and program estimates.

A significant portion of the General Fund increase is to cover anticipated DHS costs for which the Legislature had already set aside funds. Specifically, the Legislature approved the distribution of special purpose appropriations totaling $87.6 million General Fund, including $71.7 million for employee compensation changes, and $15.9 million to address non-budgeted positions related to the Child Welfare program.

Building on investments made in the 2021-23 legislatively adopted budget, the Legislature approved $47.7 million General Fund for further investments in long-term care services. This includes $35.2 million General Fund to increase Medicaid rates for nursing facilities, home and community-based care providers, in-home care agencies, and children's intensive care private duty nurses; $10 million General Fund on a one-time basis to reimburse nursing facilities for the costs of testing employees for COVID-19; and one-time General Fund of $2.5 million to ensure access to essential long-term care services and supports in underserved communities. Other significant adjustments include $9.2 million on a one-time basis for staffing contracts to help providers through the end of March 2022 with COVID-related staff shortages, $1.5 million for one-time worker incentive payments, and $1 million ($25.1 million Federal Funds) to provide low-income families more cash assistance and expand access to child abuse and neglect prevention services.

The DHS rebalance plan approved in the budget results in net savings of $38.2 million General Fund, an Other Funds expenditure limitation increase of $109.2 million, a Federal Funds expenditure limitation decrease of $7 million, and 71 new positions (45.60 FTE). The adjustments encompass several issues affecting the DHS budget, including savings or funding gaps due to changes in caseload, cost per case, and the federal medical assistance percentage (FMAP); costs associated with COVID-19, and other program changes arising since the 2021 legislative session.

Federal Funds expenditure limitation adjustments include $435.6 million and 95 limited-duration positions (80.36 FTE) to implement various investments in Medicaid home and community-based services funded by one-time enhanced federal funds authorized in the American Rescue Plan Act. This includes investments in program infrastructure, workforce, and consumer and provider benefits. Nonlimited Federal Funds increased $1.9 billion to reflect increased Supplemental Nutrition Assistance Program (SNAP) funding.

DHS was appropriated a total of $36.8 million General Fund to implement various policy bills passed during the 2022 session. For example, HB 4005 appropriated $26.6 million to increase reimbursement rates for the Employment Related Day Care subsidy program; HB 4117 appropriated $4 million for tax education and filing assistance; and SB 1536 appropriated $2 million to provide grants to emergency shelters and other organizations providing warming and cooling facilities.

In the 2021 second special session, the Legislature also provided DHS $18.2 million General Fund to for a one-time, 12-month package that is expected to support up to 1,200 Afghan individuals and families paroled into the United States through the U.S. State Department's Afghan Placement and Assistance program, including funds for short-term food and shelter, case management services, rental assistance, culturally specific assistance and interpretation classes, immigration and legal services, and positions to administer the program.

Self Sufficiency Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	455,167,000	480,302,803	506,780,130	564,979,504
Other Funds	163,843,837	119,814,326	228,308,065	227,814,723
Federal Funds	611,201,501	594,949,933	545,755,375	592,141,548
Federal Funds (NL)	2,889,345,331	1,939,345,331	2,975,868,127	3,681,868,127
Total Funds	**$4,119,557,669**	**$3,134,412,393**	**$4,256,711,697**	**$5,066,803,902**
Positions	2,611	2,621	2,740	2,787
FTE	2,520.10	2,617.30	2,736.77	2,764.93

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 2021, 708,162 people – about 1 in 6 Oregonians – received SNAP benefits worth almost $170.3 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 2021, a total of 16,001 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 2021, 9,334 families received ERDC subsidies for 16,762 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 2021-23 biennium, General Fund supports 11.9% of this budget, Other Funds, 5.4%, and Federal Funds, 82.7%. The major source of Other Funds is $122.8 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 $2.9 billion for the 2021-23 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 then dropped each year until 2020 when caseloads surged to near peak levels in response to the COVID-19 pandemic and related economic conditions. The projected biennial caseload average for 2021-23 is 398,370 households, which is 1.1% higher than the 2019-21 biennial average.

In response to the COVID-19 pandemic, in March 2020, Congress enacted legislation authorizing the U.S. Department of Agriculture (USDA) to expand SNAP through emergency allotments with the aim of providing SNAP households the maximum benefit for their household size. In March 2021, this was amended to increase the minimum amount to $95 per household or the maximum for their household -- whichever is greater. The emergency allotments and other pandemic-related SNAP enhancements, which expired on September 30, 2021, have brought an estimated $784 million in federal funds into Oregon. For SNAP regular benefits, effective October 1, 2021, the SNAP Thrifty Plan (TFP) was increased and has increased the ongoing base funding for SNAP. As a result of a recent USDA update to the TFP, SNAP benefit amounts will be 21% higher. The net impact on benefits of the expired pandemic increases and the updated TFP is a 6% increase in household monthly SNAP benefits.

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 2021-23 biennium, TANF caseloads are projected to average 15,895 families per month, which is about 12.3% lower than the average monthly caseload for 2019-21. 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.

Legislatively Adopted Budget

SSP's 2021-23 legislatively adopted budget is $506.8 million General Fund and $4.26 billion total funds, with 2,740 positions (2,736.77 FTE). The total funds budget is 3.3% above the 2019-21 legislatively approved budget; this is largely due to a projected increase in SNAP benefit expenditures. These Federal Funds Nonlimited expenditures make up 70% of SSP's total budget. Federal Funds limited expenditures decreased by a net $65.4 million, primarily due to changes in TANF caseload. The General Fund budget is 11.3%, or $51.6 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. The legislatively adopted budget maintains core programs, including the TANF One and Two-Parent programs and related services.

The adopted budget includes ERDC funding of $277.2 million total funds ($68.3 million General Fund and $208.9 million Other Funds). This resource level, which is a 33% increase over the 2019-21 legislatively approved budget, is expected to allow the program to serve an average of 9,286 families over the biennium. The caseload estimate is based on a cost per case of $1,244 per month. The growth in overall funding reflects (1) a projected increase of 1,000 cases per month, (2) recent changes in the program's co-pay structure designed to increase childcare affordability, and (3) a provider rate increase. As part of the Governor's emergency declaration related to the COVID-19 pandemic, ERDC copayments were suspended through September 2021. Additionally, the copayment structure that became effective October 1, 2021 has lower copayments than the pre-pandemic ERDC program. Households up to 100% of the federal poverty level have no share of cost.

HB 3073 (2021) made several changes to the ERDC program. Most notably, it established a cap on the program's sliding scale copayments so that copayments may not exceed 7% of household income and prohibits consideration of citizenship or legal status in eligibility determinations. Noncitizen children become eligible effective July 1, 2023. HB 3073 also moves the ERDC program from DHS to a newly established Department of Early Learning and Care, effective July 1, 2023.

New spending includes one-time funds of $76.5 million General Fund and nine limited duration positions (7.50 FTE) to feed and shelter wildfire survivors; $10 million General Fund and three positions (3.00 FTE) to provide domestic violence and sexual assault services to survivors through contracts with culturally specific organizations and tribes; $4.3 million General Fund to award grants to eligible refugee resettlement agencies providing services to refugees who reside in Oregon; $3 million General Fund on a one-time basis to continue the expansion of 211 service approved by the Legislature in response to the statewide increase in calls during the COVID-19 pandemic.

The Legislature also approved one-time General Fund expenditures totaling $5.85 million for food-related programs, including $4 million for the Double-Up Food Bucks program, which matches SNAP benefits used at farmers' markets and helps clients take home more healthy food, $1.7 million for the Oregon Hunger Response Fund, and $150,000 for the Oregon Hunger Task Force. The adopted budget also includes one-time Other Funds limitation of $14 million to use ARPA funds for emergency food supply stabilization.

The budget provides $1,147,084 total funds ($458,832 General Fund) and four positions (4.00 FTE) to support Virtual Eligibility Center operations during the transition from the Integrated Eligibility system development project to the ongoing integrated Oregon Eligibility (ONE) system.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session result in a $58.2 million General Fund increase, $0.5 million Other Funds decrease, $46.4 million Federal Funds increase, $706 million Federal Funds Nonlimited increase, and an additional 47 positions (28.16 FTE) in SSP. Most of the General Fund increase was provided to implement policy bills enacted during the 2022 legislative session, including $1.7 million for workforce development (SB 1545), $4 million to implement culturally responsive tax programs (HB 4117), and $26.6 million to increase provider reimbursement rates in the Employment Related Day Care program (HB 4005). Other new investments include:

- $1 million General Fund and $25.1 million Federal Funds expenditure limitation for the Department of Human Services' Self-Sufficiency program to implement changes to Temporary Assistance to Needy Families eligibility and cash benefits and to expand access to contracted Family Supports and Connections services.
- $1 million General Fund on a one-time basis to support making the 2-1-1 information service available 24 hours a day, seven days a week. The 2-1-1 information service helps Oregonians identify, navigate, and connect with local resources, including, for example, food, emergency shelter, and utility assistance resources.
- $3 million General Fund on a one-time basis to fund the Oregon Food Bank's emergency food supply stabilization efforts.

Child Welfare

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	761,280,346	861,468,468	890,643,457	919,758,081
Other Funds	45,333,385	37,791,256	37,712,459	35,013,136
Federal Funds	551,451,418	554,119,567	562,265,620	576,552,198
Total Funds	**$1,358,065,149**	**$1,453,379,291**	**$1,490,621,536**	**$1,531,323,415**
Positions	3,290	3,272	3,341	3,402
FTE	3,237.19	3,232.36	3,295.12	3,347.85

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 2021-23 biennium, General Fund supports 59.7% of the budget and Federal Funds cover 37.7% 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.

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 $305 million in agency expenditures for 2021-23. Overall, federal reimbursement for the programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. For 2021-23, the state's base FMAP is estimated at 60.34%; at this rate, which is used for Title IV-E match as well as for Medicaid, Oregon pays 39.66% 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 $13 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 $45 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. The budget also includes child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments. These are used to offset state assistance and maintenance costs for children in care.

Budget Environment

In federal fiscal year (FFY) 2020, CW received 78,632 reports of suspected child abuse or neglect; 42,126 of those reports were referred for further investigation. Out of those assessments, 8,720 were founded for abuse and involved 11,642 victims; 2,304 (19.8%) were removed from their homes. The number of victims represent about 1.3% of the estimated 866,562 Oregon children aged 0 to 18 in 2020.

Compared to the prior year, reports of suspected child abuse or neglect dropped 12.1%. This represents a significant shift from the recent trend of growing reports. The number of reports had previously grown each year from 2013 to 2019, at an average annual rate of 5.7%. Anecdotal evidence suggests the lower number of reports in FFY 2020 may be linked to the COVID-19 pandemic, in particular school closures. From 2016 to 2019, schools were the source of 20% to 23% of all reports. In 2020, school reports dropped to 17.9%.

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 Department of Education (Early Learning Division), provide complementary services for at-risk families.

The estimated average Child Welfare monthly caseload for 2021-23 is forecast to be 20,197, or about 1.7% below the average caseload of 20,541 children in 2019-21. Within the projected caseload, 5,793 children, or 28.7% of the caseload, are expected to be in out-of-home placements; these include both foster and residential care settings. In FFY 2020, 9,838 children spent at least one day in some kind of foster care, a 9.6% decrease from the 10,887 children in the prior year. Family foster care is the primary setting. There were 4,819 certified foster family homes in 2020 and over 47% of the children placed in family foster care were placed with relatives. The agency reports that 54.7% of children who left foster care during 2020 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 2020, 868 adoptions were finalized, which is 11.3% higher than the 780 adoptions finalized in 2017; the count of finalized adoptions has not exceeded the 1,000 mark since 2009. A total of 375 children exited foster care and entered into a guardianship. 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.

Another relatively new cost driver 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.

Legislatively Adopted Budget

At $890.6 million General Fund and $1,490.6 million total funds, the 2021-23 legislatively adopted budget for Child Welfare is 17% General Fund and 9.8% total funds higher than the prior biennium's budget. The position count of 3,341 (3,295.12 FTE) reflects a 1.6% increase over 2019-21. Budget increases are primarily tied to adding new positions to address workload issues and investing in efforts to improve outcomes for children and families.

Some key investments include:

- $992,940 General Fund ($3.9 million total funds) and 19 positions (16.72 FTE) to increase the division's ability to design, deliver, evaluate, and oversee training received by child welfare staff.
- $3.1 million General Fund ($6.2 million total funds) to increase Behavioral Rehabilitation Services rates by approximately 6.5%.
- $4.6 million General Fund ($6.1 million total funds) and 29 permanent positions to implement the Family First Act. Specifically, this package provides positions to establish the internal infrastructure to provide supports for and coordination of community-based prevention services to children and families.
- $5.9 million General Fund and two permanent positions (1.76 FTE) to expand the Independent Living Program, which includes providing new services to youth aged 14 to 16 and more intensive supports for youth aged 16 through 22.
- $6.6 million General Fund for in-home services for youth with non-medical necessity needs. This is part of the investment in the children's continuum of care services established in SB 1 (2019)
- $13.7 million General Fund ($14.6 million total funds) and one permanent position (0.88 FTE) to administer a new respite care benefit for foster families, and children and families at risk of becoming involved in the child welfare system.

To signal support for ongoing program improvement efforts, a $15.9 million General Fund special purpose appropriation was established to fund 99 positions (87.12 FTE) to address the agency's use of double-filled positions upon evidence the agency has made progress filling vacancies and implementing strategies to improve recruitment and retention.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session result in a net $29.1 million General Fund increase, $2.7 million Other Funds decrease, $14.3 Federal Funds increase, and an additional 61 positions (52.73 FTE) in CW. Investments include:

- $250,000 General Fund to support contracts for technical assistance in the development of culturally responsive behavioral health treatment foster care services.
- $10.9 million General Fund and 59 positions (51.92 FTE) to address double-filled positions.
- $21.5 million General Fund for statewide compensation adjustments.

These increases were partially offset by CW caseload and FMAP savings.

Vocational Rehabilitation

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	33,750,118	37,649,137	35,731,323	36,303,474
Other Funds	12,396,505	3,085,205	4,964,436	8,584,466
Federal Funds	109,423,839	84,461,192	84,573,852	103,496,208
Total Funds	**155,570,462**	**$125,195,534**	**$125,269,611**	**$148,384,148**
Positions	261	261	262	269
FTE	260.04	260.04	261.04	265.89

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 2021-23 biennium, General Fund supports 28.5% of this budget; Other Funds, 4%; and Federal Funds, 67.5%. 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 the state to cover 21.3% of the total program cost.

In 2021-23, 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 2021-23, 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 included 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 $125.3 million total funds, the legislatively adopted budget for VR is 19.5% below the 2019-21 approved budget level. While General Fund increased 5.9% over the prior biennium, Other Funds and Federal Funds decreased by 60% and 22.7%, respectively, due to the phase-out of one-time funding.

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.

To achieve maximum reimbursement from the Social Security Administration, the budget provides one permanent position (1.00 FTE) in the Youth and Workforce Program. Any increased federal funds achieved through process improvement will be used to fund additional services in the Ticket to Work program.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session result in a $0.6 million General Fund increase, $3.6 million Other Funds increase, $18.9 million Federal Funds increase, and an additional seven positions (4.85 FTE) in VR. Notable budget adjustments include an increase of $0.6 million General Fund from statewide compensation adjustments; an increase of $3.6 million Other Funds and four positions (2.52 FTE) to implement provider rate parity in employment services; an increase of $7.3 million Federal Funds and three positions (2.33 FTE) to implement the

Disability Innovation grant; and, and a one-time $10 million Federal Funds increase from a federal reallotment award.

Aging and People with Disabilities

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,087,718,803	1,481,364,327	1,436,480,080	1,445,881,447
Other Funds	309,106,426	238,998,859	295,125,683	365,177,542
Federal Funds	2,592,370,983	2,686,892,994	2,942,360,716	3,099,645,984
Total Funds	**$3,989,196,212**	**$4,407,256,180**	**$4,673,966,479**	**$4,910,704,973**
Positions	1,544	1,713	1,817	1,877
FTE	1,503.74	1,704.43	1,772.34	1,814.41

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 2021-23, APD expects more than 212,000 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.

<u>Revenue Sources and Relationships</u>
General Fund makes up 30.7% of the APD budget, which is an increase of 32.1% compared to 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 6.3% 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% 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.

The American Rescue Plan Act (ARPA) provides enhanced federal funding for state Medicaid spending on Home and Community Based Services (HCBS). Specifically, beginning April 1, 2021 and through March 31, 2022, states are eligible to receive a 10% increase in their federal medical assistance percentage for specified HCBS. States are required to use state funds equivalent to the amount of the federal funds attributable to the increased FMAP to implement one or more activities to enhance, expand, or strengthen HCBS, including long term services and supports. In the adopted APD budget, the state funds equivalent is estimated to be $107.6 million General Fund. On June 11, 2021, DHS submitted a plan for the use of these funds to CMS for review and approval. At the time the budget was adopted, the plan was still under CMS review, but had received partial approval. A budget note directed the agency to provide the Legislature periodic updates on the details of the CMS-approved plan and its implementation.

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 2020, this same population grew by 256,126, or 48%. The Department of Administrative Services' Office of Economic Analysis projects the 65+ age group will grow by 7.6% during the 2021-23 biennium, reaching over 863,000 by July 1, 2023. As of July 2021, APD was serving 34,684 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 2021 caseload forecast projects APD will serve an average of 36,084 clients over the 2021-23 biennium, which is 2% (or 709 clients) higher than the 2019-21 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.

Legislatively Adopted Budget

At $1,436.5 million General Fund and $4,674 million total funds, the legislatively adopted budget for APD is 32.1% General Fund and 17.2% total funds greater than the 2019-21 legislatively approved budget.

The General Fund budget is $348.8 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 fund shifts. Regarding caseload, while the pace of overall caseload growth is forecasted to slow in 2021-23 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.

The adopted budget makes various investments in the long-term care services system to address both immediate operational challenges posed by the COVID-19 pandemic, as well as longer term system needs for increased wages, improved case management, workforce development and training, and infrastructure improvements.

Some key investments include:

- $47.9 million General Fund ($149.8 million total funds) for rate increases for assisted living facilities, residential care facilities, memory care facilities, and in-home care agencies. Rates were increased 5% on July 1, 2021 and will increase another 5% on July 1, 2022. Extends --through March 31, 2022-- a 5% increase that was adopted during the 2020 second special session to address pandemic-related cost pressures. Funds a 10% enhanced Medicaid rate for wages that took effect October 1, 2021.
- $21.7 million General Fund ($61.2 million total funds) for rate increases for skilled nursing facilities. On October 1, 2021, rates increased 4%. Extends --through March 31, 2022-- a 5% increase that was adopted during the August 2020 special session to address pandemic-related cost pressures.
- $5.6 million General Fund ($18.9 million total funds) to increase rates for adult foster home providers and workers in the APD program. These rates are also subject to collective bargaining but are expected to increase by 5% on July 1, 2021 and 2.3% on April 1, 2022. Also funds a one-time payment of $1,000 to providers for each resident served from March 1, 2020 to February 28, 2021.
- $14 million Other Funds on a one-time basis for a new Capital Improvement and Emergency Preparedness grant program. Eligible expenditures include emergency power sources, air quality and HVAC improvements, infectious disease prevention strategies and equipment, technology to facilitate virtual visits and telehealth for residents, and room reconfigurations that reduce the risk of transmitting infectious diseases.
- $4.4 million General Fund ($44.8 million total funds) and 52 positions (18.81 FTE) to expand Oregon Project Independence (OPI) as well as create a new Family Caregiver Supports program. DHS is in the process of obtaining a waiver for federal matching funds.
- $2.5 million General Fund and 12 positions (10.56 FTE) to meet increased workload demands associated with abuse screenings, investigations, policy development, training, and operational support for program staff and contractors.
- $1.8 million General Fund ($2.8 million total funds) to support the implementation of a time, attendance, and payment system for Home Care Workers.
- $1.4 million General Fund ($12.2 million total funds) on a one-time basis to develop or expand programs that will improve the skill level and training of workers in the long-term care sector as well as create better pathways to continued education and professional advancement for workers.
- $1.2 million General Fund and six positions (6.00 FTE) to provide technical assistance regarding practices in long-term care facilities.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session result in a net $9.4 million General Fund increase, $70.1 million Other Funds increase, $157.3 million Federal Funds increase, and an additional 60 positions (42.07 FTE) in APD. Major General fund increases include $2.5 million on a one-time basis to ensure access to essential long term services and supports in underserved communities; $9.5 million to reimburse nursing facilities for mandatory COVID-19 testing of employees; $16.4 million for salary adjustments for both state and non-state employees; and $35.2 million ($102.1 million total funds) to increase Medicaid rates for nursing facilities, home and community based care providers, in-home care agencies, and children's intensive care private duty nurses. The latter includes the following:

- For nursing facility providers, $13.4 million General Fund ($37.5 million total funds) on a one-time basis to extend the 5% COVID add-on through the end of the 2021-23 biennium. Under current law, this add-on will expire on March 31, 2022.
- For community-based care providers, $9.7 million General Fund ($28.8 million total funds) on a one-time basis to extend the 5% COVID add-on through the end of the 2021-23 biennium, and $8.2 million General Fund ongoing ($24.2 million total funds) to increase the COLA for these providers to 10% for the second year of the biennium. Under current law, the COVID add-on will expire on March 31, 2022, and the COLA is set at 5%.
- For in-home care agencies, $2.1 million General Fund ($6.3 million total funds) on a one-time basis to extend the 5% COVID add-on through the end of the 2021-23 biennium, and $1.8 million General Fund ongoing ($5.3 million total funds) to increase the COLA for these providers to 10% for the second year of the biennium.
- For children's intensive care private duty nurse providers, $46,000 General Funds ongoing ($115,000 total funds) to increase the COLA to 10% for the second year of the biennium. Current law provides for a 5% increase.

These and other General Fund increases were partially offset by more than $68 million in projected caseload savings.

During the 2022 legislative session, agency stakeholders expressed concerns about workload and staffing impacts related to both the Provider Time Capture and ONE integrated eligibility systems. Since both systems are relatively new, having been implemented in the last year, there have been challenges related to that transition. Other workload demands and staffing shortages are more tied to increases or changes in caseloads primarily due to the pandemic; some policy or legislative changes have driven others. Due to these concerns, the Legislature approved a budget note directing the agency to work with stakeholders to collect information on the impacts of the Provider Time Capture and ONE integrated eligibility systems on workload and staffing for both DHS and agency partners. An informational hearing in the Joint Committee on Ways and Means Human Services Subcommittee is anticipated for DHS to provide information on workload and staffing issues, along with potential solutions and/or related budget recommendations.

Intellectual and Developmental Disabilities

	2019-21 Legislatively Approved	2012-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	939,347,502	1,240,534,521	1,237,078,491	1,267,294,981
Other Funds	52,718,791	30,216,467	22,825,621	29,453,863
Federal Funds	2,221,423,059	2,226,657,549	2,594,495,379	2,938,250,125
Total Funds	**$3,213,489,352**	**$3,497,408,537**	**$3,854,399,491**	**$4,234,998,969**
Positions	917	917	938	1,007
FTE	916.30	916.17	934.81	990.73

Program Description

The Intellectual and Developmental Disability (IDD) program serves more than 31,000 people (9,900 children and 21,400 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 32.1% 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 less than 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 2021-23 biennium, the average Medicaid match rate is estimated at 60.34%; at this rate, Oregon will pay 39.66% of eligible program costs. For K Plan services, the state draws an additional 6% in federal match.

The American Rescue Plan Act (ARPA) provides enhanced federal funding for state Medicaid spending on Home and Community Based Services (HCBS). Specifically, beginning April 1, 2021 and through March 31, 2022, states are eligible to receive a 10% increase in their federal medical assistance percentage for specified HCBS. States are required to use state funds equivalent to the amount of the federal funds attributable to the increased FMAP to implement one or more activities to enhance, expand, or strengthen HCBS, including long term services and supports. In the adopted IDD budget, the state funds equivalent is estimated to be $168.2 million General Fund. On June 11, 2021, DHS submitted a plan for the use of these funds to CMS for review and approval. At the time the budget was adopted, the plan was still under CMS review, but had received partial approval. A budget note directed the agency to provide the Legislature periodic updates on the details of the CMS-approved plan and its implementation.

Budget Environment

A major budget driver for IDD programs is caseload growth. Based on the Spring 2021 forecast, the 2021-23 case management (overall client count) biennial average caseload forecast is 33,180 clients, which is 7.9% higher than the 2019-21 average forecast of 30,753 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 2021-23 legislatively adopted budget for this program area is $1,237.1 million General Fund and $3,854.4 million total funds; the General Fund portion is 31.7% higher than the 2019-21 legislatively approved budget while the total funds amount increased by 19.9% between biennia.

Caseload and cost per case changes based on the Spring 2021 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 case management costs for CDDPs and Brokerages, the budget includes $379.5 million total funds. This represents an increase of $103.7 million or 37.6% compared to 2019-21. The increase is largely driven by the addition of workload model positions. CDDPs and brokerages gained a total of 384.30 FTE, an increase of 26.3% between biennia.

To support higher wages for direct support professionals, at a cost of $72.8 million General Fund ($214.9 million total funds), the adopted budget fully funds new rate models for IDD providers. This includes provider rates for Adult and Children 24-Hour Residential, Attendant Care, Supported Living, Non-Medical Transportation, Day Support Activity, Employment Path, and Small Group Employment. Wages for direct support professionals are expected to increase to $17.81 per hour by the end of the 2021-23 biennium. Rates increased 3.2% on July 1, 2021 and will increase on average across all services by 23.1% on July 1, 2022.

Other Investments include:
- $0.1 million General Fund ($0.2 million total funds) for the Department to contract for a study to identify, and make recommendation for, an improved funding structure for Community Developmental Disability Programs (CDDPs).
- $0.4 million General Fund to cover Disability Rights Oregon's (DRO) costs associated with guardianship reviews.
- $0.6 million General Fund ($1.1 million total funds) to reduce or eliminate language access barriers and increase communications that are designed specifically to reach people with intellectual and developmental disabilities.
- $1.4 million General Fund to restore the Family-to-Family Networks program to the 2019-21 funding level, adjusted for inflation. During the 2020 second special session, the Legislature made reductions in anticipation of significant negative impacts of the COVID-19 pandemic on state revenues. The 10 networks provide referral services and peer networking opportunities, potentially mitigating the need for families to access more expensive Medicaid services.
- $2 million General Fund ($4 million total funds) and 19 positions (16.72 FTE) in the Licensure and Quality Improvement Office to meet growing workload demands and to ensure Oregon meets federal timelines for licensure visitations and investigations of neglect and abuse.

<u>Legislatively Approved Budget Update</u>
Actions taken during the 2022 regular session result in a $30.2 million General Fund increase, $6.6 million Other Funds increase, $343.8 million Federal Funds increase, and an additional 69 positions (55.92 FTE) in IDD. Notable budget adjustments include:
- $1.5 million General Fund ($7.2 million total funds) for one-time worker incentive payments.
- $13.9 million General Fund ($39.7 million total funds) for statewide compensation adjustments.
- $21 million General Fund ($73.7 million total funds) for changes in caseload and cost per case.

The Legislature also approved 57 limited duration positions (50.16 FTE) to implement one-time ARPA funded enhancements in home and community-based services.

Central Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	152,026,057	60,248,150	185,729,161	209,961,790
Other Funds	117,551,545	2,402,495	2,706,143	45,895,088
Federal Funds	183,353,459	85,595,958	111,573,525	126,444,545
Total Funds	**$452,931,061**	**$148,246,603**	**$300,008,829**	**$382,301,423**
Positions	280	230	340	382
FTE	260.14	229.12	335.61	371.37

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 2021-23 legislatively adopted budget is 61.9% General Fund, 0.9% Other Funds, and 37.2% 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.

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.

Legislatively Adopted Budget

For Central Services, the 2021-23 legislatively adopted budget is $185.7 million General Fund, $300 million total funds, and 340 positions (335.61 FTE). General Fund increased from the prior biennia by $33.7 million (22.2%), while total funds decreased $152.9 million (33.8%).

Most of the growth in General Fund between biennia is driven by (1) one-time funds to feed and shelter wildfire victims ($76.5 million General Fund, and 9.00 FTE) and (2) maintenance and operation costs for the ONE eligibility system ($27.5 million and 20.00 FTE). The new ONE positions will provide staffing for the Virtual Eligibility Center, system testing, the Helpdesk, and administrative support. This package also funds contracting costs and general services and supplies expenditures. Additionally, the budget reflects a transfer of $9.5 million General Fund ($38 million total funds) for ONE maintenance and operations from other programs.

Other budget adjustments include:
- $3.8 million General Fund ($4.5 million total funds) and seven permanent positions (5.74 FTE) to advance equity initiatives to provide more equitable, accessible service delivery to communities of color and historically disadvantaged groups. This includes rebranding the agency in a variety of ways, providing greater language access within the Office of Development Disabilities Services, increasing capacity for equity expertise, and the implementation of strategies within the Office of Equity and Multicultural Services.
- $5.2 million General Fund ($8.6 million total funds) and 35 permanent positions (34.25 FTE) as authorized in the 2020 second special session. Of the 35 positions, 21 positions were transferred to Central Services from Shared Services as part of a Human Resources Center reorganization. The balance of positions were recommended by the child welfare crisis team contractor Alvarez and Marsal.
- $7.5 million General Fund ($10.8 million total funds) and 39 permanent positions (39.00 FTE) to assist with agency recruitment, completing pay equity assessments, providing training and legal compliance, supporting labor negotiations and handling workforce management issues. This package is meant to provide additional budget for double-filled positions.

Technical adjustments and position transfers are also accounted for in the budget, along with standard reductions due to changes in statewide charges for services, and adjusted rates for attorney services provided by the Department of Justice.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session result in a $24.2 million General Fund increase, $43.2 million Other Funds increase, $14.9 million Federal Funds increase, and an additional 42 positions (35.76 FTE) in Central Services. This includes:
- $1.4 million General Fund and four positions (3.83 FTE) for transfer of the Office of Immigrant and Refugee Advancement from the Office of the Governor to DHS.
- $2 million General Fund on a one-time basis to provide grants for emergency shelters or other organizations that provide warming and cooling facilities as required by SB 1536 (2022).
- $4.4 million General Fund ($8.9 million total funds) and 34 positions (29.92 FTE) to address double-filled positions in Central Services.
- $9.2 million General Fund on a one-time basis for the Department of Human Services to address pandemic-related staffing shortages experienced by Office of Developmental Disabilities Services' providers serving vulnerable Oregonians.

Shared Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	157,108,752	163,567,538	167,299,992	178,008,753
Total Funds	**$157,108,752**	**$163,567,538**	**$167,299,992**	**$178,008,753**
Positions	671	679	702	730
FTE	668.23	674.24	696.72	719.25

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 2021-23 legislatively adopted budget of $167.3 million Other Funds is 6.5% above the 2019-21 legislatively approved budget. The change in staffing is a net increase of 4.6% and 31 positions (28.49 FTE). In support of the agency's diversity, equity and inclusion initiative, the budget provides $2.1 million Other Funds limitation and 11 positions (11.00 FTE) for translation positions. The adopted budget for Shares Services provides $1.8 million Other Funds limitation and five positions (5.00 FTE) to implement SB 155 (2019), which requires DHS to conduct investigations of reports of abuse occurring in a school setting. The new positions within the Office of Training, Investigation and Safety (OTIS) will screen and investigate referrals. The budget also provides OTIS $0.6 million Other Funds limitation and four positions (3.38 FTE) to implement SB 749 (2021), which created a new program to register residential care referral agents. To support implementation SB 710 (2021), related to the use of restraint for children in child caring agencies, proctor foster homes and developmental disabilities residential facilities, the budget includes $0.6 million for secure transportation services.

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.

Legislatively Approved Budget Update
Actions taken during the 2022 regular session result in a $10.7 million Other Funds increase and 28 positions (22.53 FTE). This includes $6 million Other Funds related to statewide compensation adjustments, $1.2 million Other Funds and eight positions (5.16 FTE) to address workload in internal audits and financial services, and $0.8 million Other Funds and six positions (5.28 FTE) to address Child Welfare-related double-filled positions in Shared Services.

State Assessments and Enterprise-wide Costs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	292,178,839	344,898,700	343,774,637	363,005,121
Other Funds	46,318,940	43,763,985	51,472,780	52,778,382
Federal Funds	194,015,071	226,865,351	230,296,582	241,278,088
Total Funds	**$532,512,850**	**$615,528,036**	**$625,543,999**	**$657,061,591**

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 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 2021-23 legislatively adopted budget, revenues are split 55% General Fund, 8.2% Other Funds, and 36.8% 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 $32.4 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 2021-23 legislatively adopted budget of $343.8 million General Fund and $625.5 million total funds is 17.7% General Fund and 17.5% total funds more than the 2019-21 legislatively approved budget. The largest components of the SAEC budget are statewide assessments, shared services funding, and debt service. The debt service budget of $24.4 million General Fund ($25.5 million total funds) for 2021-23, is primarily for debt service on Article XI-Q bond proceeds that are being used to help finance the Integrated Eligibility project.

The adopted budget also includes:

- $9.1 million General Fund ($21.2 million total funds) for costs associated with the transition from the integrated eligibility project to the integrated ONE program.
- $2.9 million General Fund related to the transfer of postage and handling from program to SAEC.
- $0.7 million General Fund for costs associated with adding positions in Shared Services to implement business process changes to increase estate recovery and assist in clearing the Surviving Spouse and Pending backlog.
- $0.2 million General Fund for SAEC costs associated with adding positions in the Shared Services Occupational Health, Safety and Emergency Management Program to enhance the agency's ability to prepare for disasters by collaborating with other state agencies, elected officials, non-governmental organizations, stakeholders, employees and the public.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session result in a $19.2 million General Fund increase, $1.3 million Other Funds increase, and a $11 million Federal Funds increase in SAEC. The General Fund increase largely reflects technical adjustments; for example, $12.8 million General Fund supports infrastructure transfers related to newly approved positions in the program divisions. Also included is $4.6 million General Fund related to statewide compensation adjustments.

LONG TERM CARE OMBUDSMAN

Analyst: Jolivette

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	7,558,394	9,114,584	10,819,492	11,164,278
Other Funds	1,117,464	919,514	888,786	1,166,468
Total Funds	**$8,675,858**	**$10,034,098**	**$11,708,278**	**$12,330,746**
Positions	30	30	36	36
FTE	29.14	29.50	35.50	35.50

Overview

The office of the Long Term Care Ombudsman (LTCO) 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 became an independent state agency in 1985. 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 92.4% of expenditures. The remaining 7.6% 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 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 2021-23, 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. In 2019-21, the program is estimated to have met only about 10-15% of the statewide need for public guardian and conservator services.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $10.8 million General Fund is 43.1% more than the 2019-21 budget of $7.6 million General Fund, primarily due to the addition of six new permanent positions, including four new Deputy Public Guardian positions, a Program Manager, and a Program Analyst 1 to provide program support. The overall budget, at $11.7 million total funds, is a 35% increase above the prior biennium funding level and supports 36 positions (35.50 FTE). The adopted budget also includes standard statewide adjustments in various assessments and charges for services, legal rates, and retirement system rates.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for LTCO is an increase of $344,786 General Fund and $277,682 Other Funds from the adopted budget. The increase is attributable to statewide employee compensation adjustments, as well as Other Funds expenditure limitation for federal American Rescue Plan Act funds transferred from the Department of Human Services for COVID-19 response activities. Other Funds expenditure limitation was also approved to allow the agency to use donations received in support of the Oregon Public Guardian and Conservator program.

Long Term Care Ombudsman

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	5,633,096	6,802,502	6,852,108	7,040,777
Other Funds	1,111,464	919,514	888,786	1,160,468
Total Funds	**$6,744,560**	**$7,722,016**	**$7,740,894**	**$8,201,245**
Positions	24	24	24	24
FTE	23.14	23.50	23.50	23.50

Program Description
The LTCO program was created in 1972 under authorization of the federal Older Americans Act and established as a state agency in 1985. Core services include the investigation and resolution of complaints made by and on behalf of more than 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. Of the program's 24 positions (23.50 FTE), 12 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 2021-23 biennium.

The program's remaining four positions (4.00 FTE) are responsible for executive/operational leadership and administrative support across the agency.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $6.9 million General Fund is 21.6% more than the 2019-21 legislatively approved budget of $5.6 million General Fund; total funds increased by 14.8% between biennia. The change is primarily due to current service level growth attributed to base salary adjustments, inflation, phase-ins and phase-outs. 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.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the LTCO program includes an increase of $188,669 General Fund and $271,682 Other Funds for statewide employee compensation adjustments, as well as Other Funds expenditure limitation of $258,160 to allow the agency to use federal American Rescue Plan Act funds transferred from the Department of Human Services for COVID-19 response activities.

Oregon Public Guardian

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,925,298	2,312,082	3,967,384	4,123,501
Other Funds	6,000	--	--	6,000
Total Funds	**$1,931,298**	**$2,312,082**	**$3,967,384**	**$4,129,501**
Positions	6	6	12	12
FTE	6.00	6.00	12.00	12.00

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.

The current program funding level supports a caseload of about 170 clients; 150 of these are served directly by agency deputy guardians and the remainder through current or prospective contracts. 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 2021-23 legislatively adopted budget of $3.97 million General Fund is 106.1% above the 2019-21 legislatively approved budget of $1.9 million General Fund, which reflects the addition of six new permanent positions, as well as standard inflationary adjustments. The program now has a total of 12 positions (12.00 FTE): the Oregon Public Guardian and Conservator, a program manager, a program analyst, an administrative assistant, and eight deputy public guardians. With this increase in staff, OPG expects to serve an estimated 170 clients, twice as many individuals as were served in 2019-21. While the budget still does not fund the program at the level required to meet the total statewide demand, 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. To begin to address this issue, the adopted budget provides $62,769 total funds to reclassify some positions.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the OPG program includes an increase of $156,117 General Fund to support statewide compensation adjustments. Other Funds expenditure limitation of $6,000 was also approved to allow the agency to use donations received in support of the Oregon Public Guardian and Conservator program.

PSYCHIATRIC SECURITY REVIEW BOARD

Analyst: Robbins

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,220,660	3,691,599	3,934,061	4,082,379
Other Funds	-	-	-	-
Total Funds	**$3,220,660**	**$3,691,599**	**$3,934,061**	**$4,082,379**
Positions	11	11	12	12
FTE	11.00	11.00	12.00	12.00

Overview

The mission of the Psychiatric Security Review Board (PSRB) is to protect the public by ensuring people who have a mental illness and/or intellectual disability and have been placed under the Board's jurisdiction as a result of committing a crime receive the necessary support to reduce the risk of future dangerous behavior. The Board's predominant body of work involves its statutory jurisdiction over people who have committed a crime and are found by a court to be guilty except for insanity (GEI). This work includes overseeing treatment outcomes for GEI clients who are committed to the Oregon State Hospital; coordinating treatment and case management for clients who are conditionally released to receive services in community settings; revoking conditional release and ordering the return of clients to the State Hospital, as appropriate; and discharging clients from the Board's jurisdiction consistent with statutory requirements. In 2007, the Legislature expanded the Board's jurisdiction to include youth who have been found responsible of a crime except for insanity (REI). The Board is also responsible for conducting hearings for persons barred from possessing a firearm due to a mental health determination, supervising civilly committed individuals deemed extremely dangerous, and conducting sex offender classification and relief hearings for GEI sex offenders.

The Board is comprised of two separate five member panels - one for overseeing adult clients and one for overseeing juvenile clients. Board members are appointed by the Governor and confirmed by the Senate and serve four-year terms. The Board largely delivers client services by conducting hearings to confirm that PSRB jurisdiction remains appropriate, ensure clients are being safely supervised and treated, and consider client requests for conditional release. Board members do not receive a salary as part of their appointments but are paid a stipend for client hearings. The agency's 12 state employees support board members' work and constitute the largest expense within the agency's budget.

Revenue Sources and Relationships

PSRB's operations are funded entirely with General Fund resources. Until 2017-19, 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 the agency's 12 staff. Despite the expansion of the Board's responsibilities over the past several years, the PSRB's primary workload remains focused on its jurisdiction over adults adjudicated GEI. The length this jurisdiction is typically equal to the maximum period of time an individual would likely have received if found guilty of the crime for which they were accused. After peaking at over 700 in 2008, the total number of GEI adults either on conditional release or in the Oregon State Hospital has remained around 600 since 2016. The treatment system for these clients has also changed significantly during this time with the state's push to serve more individuals with mental illness in the community instead of in state-run institutions. Prior to 2008, more GEI adults were treated at the Oregon 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 PSRB are on conditional release.

PSRB is not primarily responsible for the outcomes of Oregon's behavioral health or criminal justice systems. Most of the resources to provide treatment for its clients 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. The Board's decisions, however, play a role in the operations of the Oregon State Hospital and, in turn, are affected by the availability of behavioral health services in the community to ensure patients can safely transition to lower levels of care. The Board's ability to hear and decide the cases within statutory deadlines is not just important to the individual patients in question but is also important to ensuring the timely discharge of patients from the State Hospital and thus could affect the hospital's available bed capacity. At the same time, Oregon's outpatient behavioral health system has struggled to address the need for services across the continuum of care. The availability of appropriate community placements is one important factor affecting PSRB's ability to transition patients to lower levels of care.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for PSRB totals $3.9 million General Fund and 12 positions (12.00 FTE). The budget represents a 22% increase from the 2019-21 legislatively approved budget, which is driven by two new investments. First, the budget includes $138,219 to sufficiently pay for board member stipends for the time they spend preparing for each hearing day, at an average of one preparation day per hearing day. Because of the higher volume of hearings held and complexity of cases reviewed today compared to the Board's inception, board members now dedicate additional unpaid time away from their personal and professional pursuits to review case files in advance of hearings. PSRB began paying a preparation day stipend within its existing budget in 2015 by leveraging vacancy and other savings, which are no longer available.

Second, an additional $165,734 was approved for a new Administrative Specialist 2 position (1.00 FTE) to support PSRB's workload. The agency had managed its workload with 11 full-time staff since 2013 despite growing demands on staff time, including the expansion of PSRB's jurisdiction to include certain civilly committed individuals; the return of jurisdiction over "tier 2" guilty except for insanity offenders; the creation of the Sex Offender Reclassification program; and increased oversight activities.

Legislatively Approved Budget Update

Actions taken during the 2022 regular session increased PSRB's budget by $148,318 General Fund due to statewide employee compensation plan changes.

PUBLIC SAFETY

PROGRAM AREA

DEPARTMENT OF CORRECTIONS

Analyst: Terpening

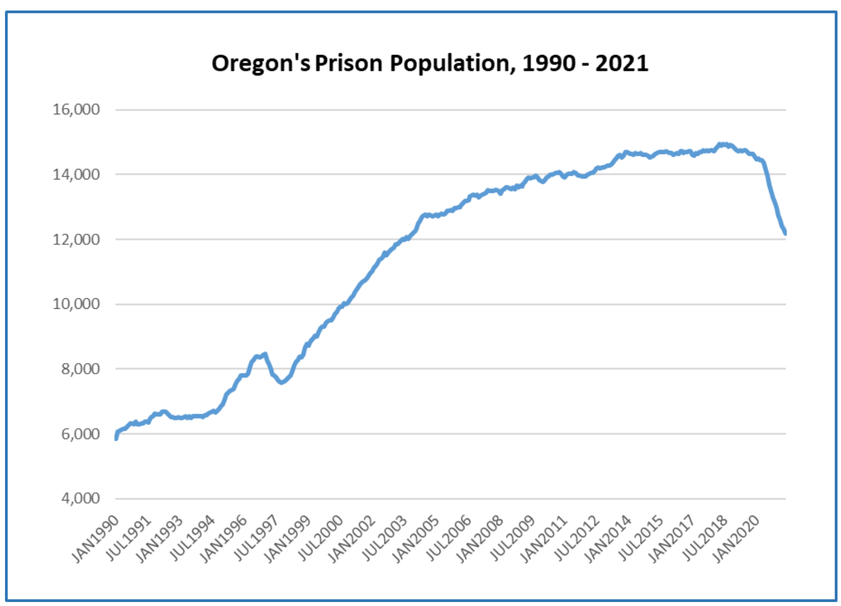
Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,925,643,660	1,928,608,522	1,140,155,032	1,108,497,939
Other Funds	138,771,125	50,090,113	1,024,510,416	1,100,946,425
Other Funds (NL)	214,566,938	--	--	--
Federal Funds	4,533,582	4,734,976	4,734,976	4,734,976
Federal Funds (NL)	940,120	--	--	--
Total Funds	**2,284,455,425**	**1,983,433,611**	**2,169,400,424**	**2,214,179,340**
Positions	4,731	4,702	4,781	4,791
FTE	4,699.06	4,678.34	4,688.65	4,691.44

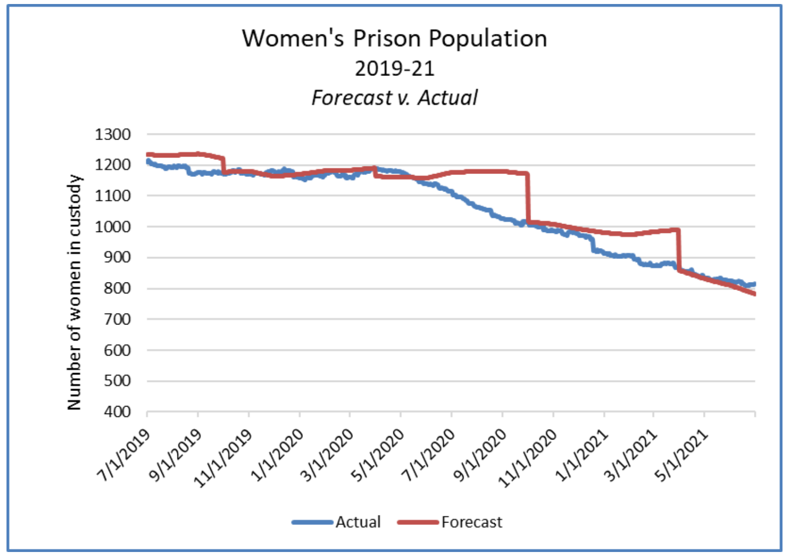
<u>Overview</u>
The Department of Corrections (DOC) has two primary functions: prison operations and responsibility for the state community corrections system. The Department operates 13 correctional institutions – twelve for men and one for women – that incarcerate adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The adopted budget is based on the April 2021 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.

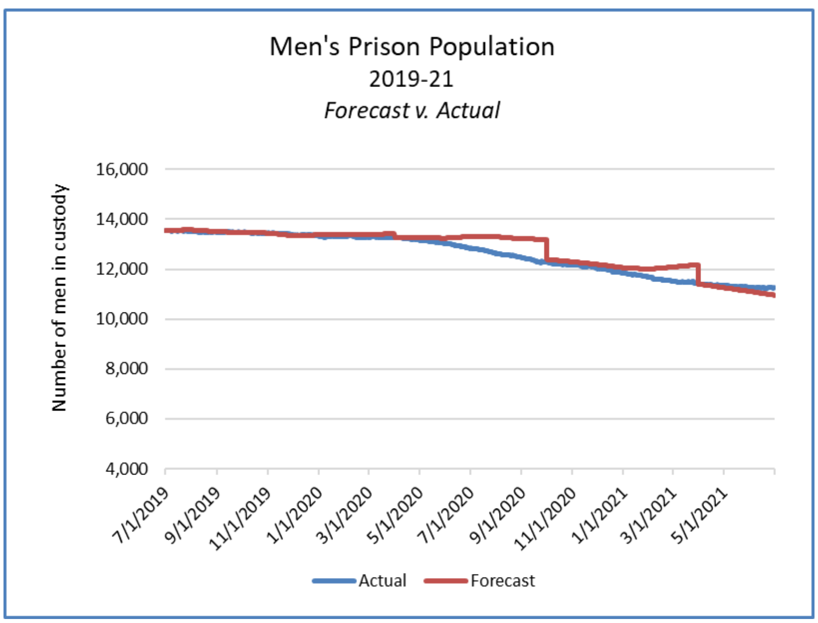
<u>Budget Environment</u>
Since 2009, Oregon's prison population growth has moderated, leveling off after 2014. The COVID-19 pandemic in 2020 caused a steep drop in the prison population, shown in the chart below; the current population level of just over 12,000 inmates was last experienced in August of 2003. The current prison population situation resulted in the unprecedented decision to close two minimum-security prisons in the 2021-23 biennium.

This decision puts the state on a very different trajectory for its prison operations. 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 adult in custody 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 adult in custody 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 on the previous page. Absent these changes, the April 2013 prison population forecast projected a total of 16,395 adults in custody by 2023, or 4,342 more than the actual number of incarcerated adults at the end of August 2021.





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 April 2021 prison population forecast, the need for new prison capacity falls outside of the ten-year forecast window, meaning additional bed space is not anticipated to be needed for at least another ten years.

Historically, the Department of Corrections has not been funded to operate all available prison beds and during the 2021-23 biennium it is not anticipated to need all of them. Based on the 2021-23 legislatively adopted budget and the declining prison population, DOC institutions are using emergency beds solely due to the COVID-19 pandemic, with a total of 716 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 2021-23					
		Total Budgeted Capacity: 13,749		E-Beds	
Facility	**Location**	**Minimum**	**Medium**	**8/25/2021**	**Total**
Columbia River	Portland	553	-	36	589
Deer Ridge Minimum	Madras	-	-	-	-
Deer Ridge Medium	Madras	990	-	205	1,195
Powder River	Baker City	286	-	30	316
Santiam	Salem	440	-	40	480
Shutter Creek*	North Bend	106	-	34	140
Snake River	Ontario	174	2,887	60	3,121
South Fork	Tillamook	204	-	-	204
Two Rivers	Umatilla	128	1,758	60	1,946
Warner Creek	Lakeview	406	-	28	434
Eastern Oregon	Pendleton	-	1,658	91	1,749
Oregon State Correctional	Salem	-	884	52	936
Coffee Creek - Male Intake	Wilsonville	-	432	-	432
Oregon State Penitentiary	Salem	-	1,623	80	1,703
Coffee Creek - Female	Wilsonville	540	680	-	1,220
OSP - Minimum	Salem	-	-	-	-
Totals		**3,827**	**9,922**	**716**	**14,465**

Notes:

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

- Shutter Creek Correctional Institution is scheduled to close on 1/1/2022.

- The Mill Creek Correctional Facility is closed as of 7/1/2021.

- OSP-Minimum has a built capacity of 176 beds, and the institution is currently mothballed.

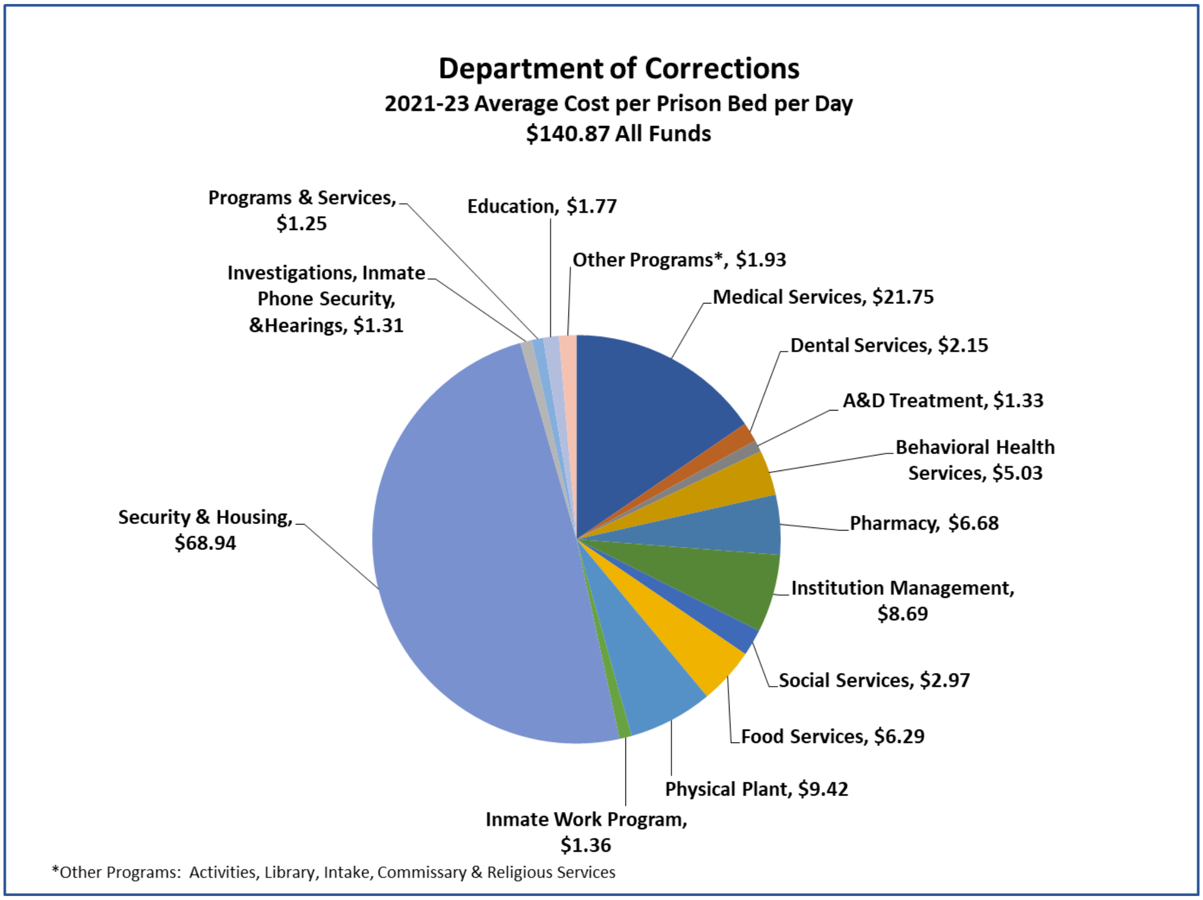
- Unused (inactive) permanent capacity includes: Deer Ridge (9 additional beds at DRCI and 657 beds at DRCM), Oregon State Penitentiary (560 beds), and the mothballed Oregon State Penitentiary Minimum (176 beds).

- As of 8/25/2021, 716 emergency beds (E-Beds) are in use, primarily for COVID-19 social distancing purposes.

- There are 1,211 permanent special purpose and 977 health care beds distributed in various institutions across the state.

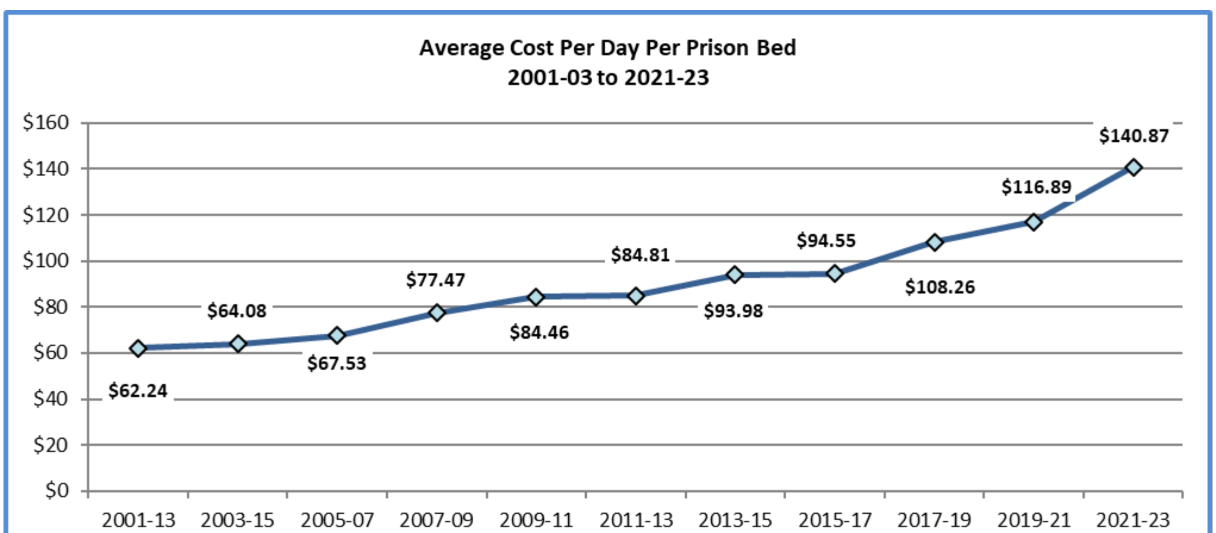
DOC has reached the limit for double occupancy cells in its general population units, and declining population levels may allow the agency to return some general population unit cells to singles. There will continue to be special unit beds where double occupancy cells are not feasible, and single cells 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 emergency beds are likely to be needed only for pandemic-related social distancing purposes during the 2021-23 biennium. Short-term work camp beds may also be added as forest-related work needs arise.

Based on the 2021-23 legislatively adopted budget the estimated prison bed cost per day calculation is $140.87, or a 20.5% increase from the 2019-21 legislatively adopted budget cost per day of $116.89. 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 adults in custody 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 $1.42 billion total funds.

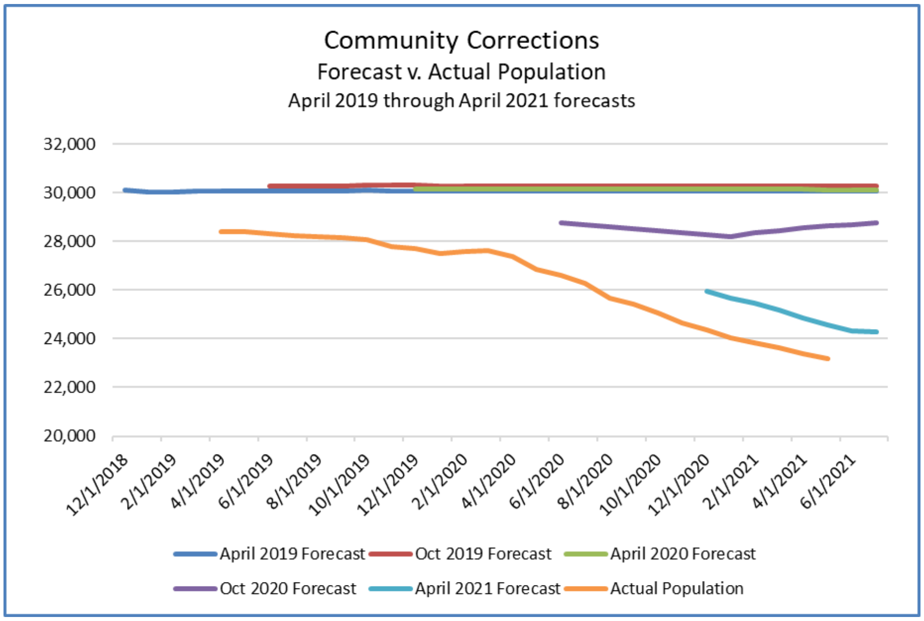


The components of the cost-per-day are reflected in the display above. The chart does not include the community corrections budget; debt service for the agency's facilities; department-wide costs of administering the agency, including the overall management; state government service charges; financial and personnel staff; and information systems costs. The total cost excluded from the calculation is $744.5 million total funds.

For context, the following display shows average cost per adult in custody per day from 2001-03 to the 2021-23 legislatively adopted budget.



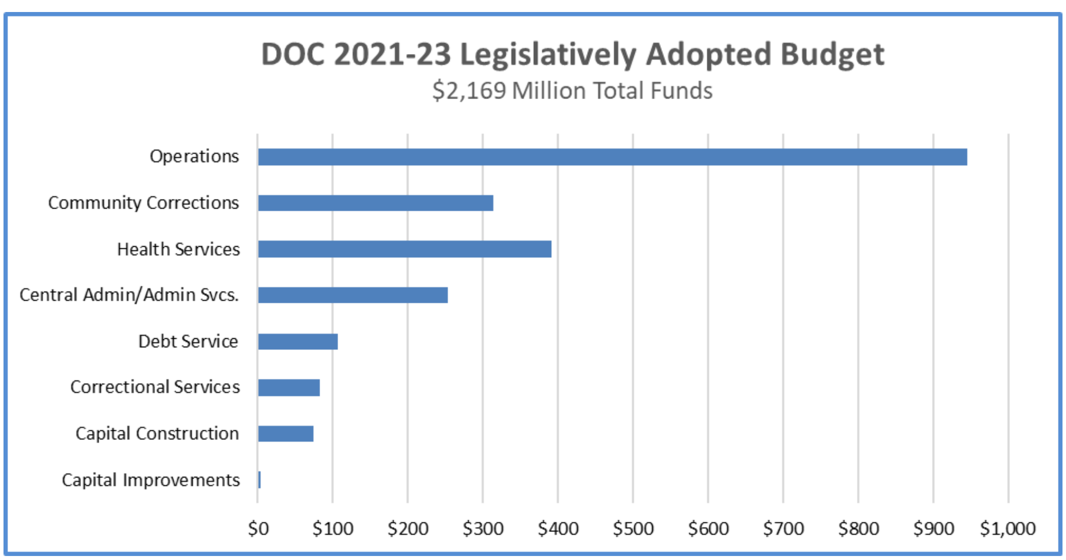
Community Corrections caseloads have decreased, and are forecast to be relatively flat over the next ten years. Based on the April 2021 corrections population forecast, DOC anticipates the felony probation and parole/post-prison supervision caseload to total 25,672 by the end of the 2021-23 biennium. Ballot Measure 110 (2020), which reduced many "possession of a controlled substance" felony and misdemeanor crimes to violations, had a large affect on the parole, probation, and post-prison supervision forecast, reducing the forecast number of offenders on supervision from just more than 30,000 on 1/1/2021 in the April 2019 population forecast to 25,675 on 1/1/2021 in the April 2021 forecast. State funding for Community Corrections is based on a per-offender per-day allocation, so this change reduced the total amount of Grant-in-Aid funding to counties by $34.5 million.



Community Corrections services are provided by counties and funded by the state. This Grant-in-Aid is allocated to counties based on a capitated daily rate and on a forecast number of offenders on supervision in each county. To calculate the current service level for Grant-in-Aid, which is budgeted in as Special Payments, past practice has been to only apply the state's standard inflation factor for the Special Payments category. This practice has caused the amount of funding provided by the state to fall short of county requirements, as most Grant-in-Aid funding is spent by counties on personnel expenses for parole and probation officers, the costs of which have risen faster than the special payments inflation allowance. Action taken by the Legislature in 2021 changed the way that the current service level is calculated for Grant-in-Aid. Going forward, current service level is to be calculated using a weighted average of the inflation applied to personnel expense and the standard inflation applied to services and supplies. This improved inflation factor is intended to more closely match state funding to actual county expenses incurred to run the program.

Legislatively Adopted Budget

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



The 2021-23 legislatively adopted budget for DOC is $1.14 billion General Fund, $2.169 billion total funds, and 4,781 positions (4,688.65 FTE). General Fund is 40.8% less than the 2019-21 legislatively approved budget and total funds are 4.2% lower, caused by $214 million of one-time debt refinancing activities in 2019-21 and the use of almost $900 million in federal pandemic revenue replacement relief funds in lieu of General Fund in both 2019-21 and 2021-23 to provide public safety services. Other Funds of $946 million include $849.2 million from both the CARES Act and the American Rescue Plan Act Coronavirus State Fiscal Recovery Fund (ARPA), and $88.2 million in Article XI-Q bond proceeds for capital projects and the implementation of an electronic health records system. Bonds will be issued throughout the biennium, requiring new debt service of $10.4 million General Fund in the 2021-23 biennium.

Select operational changes and investments in the DOC budget include:

- A reduction of $28.8 million General Fund, $3.6 million Other Funds, 53 positions and 121.25 FTE to account for the closure of the Mill Creek Correctional Facility and the planned closure of the Shutter Creek Correctional Institution during the 2021-23 biennium.
- An investment of $47.9 million in prison Health Services for Hepatitis C and other specialty treatments and off-site medical care for adults in custody.
- $32.7 million General Fund to provide an inflationary increase to Community Corrections funding.
- $21.6 million General Fund and 107 positions (107.00 FTE) to increase staffing and alleviate overtime usage in prison housing units, transport, health services, food services, and the prison laundry.
- $37.3 million Other Funds expenditure limitation (ARPA) for deferred maintenance projects throughout the prison system.

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

Legislatively Approved Budget Update

The legislatively approved budget is $2.214 billion total funds for the 2021-23 biennium, a net increase of $44.8 million from the legislatively adopted budget. The budget includes 4,791 positions (4,691.44 FTE), which is a 10 position (2.79 FTE) increase from the legislatively adopted budget. The net 2% increase in the total funds budget includes an overall reduction of $31.7 million General Fund and an increase in Other Funds expenditure limitation of $76.4 million. This change is largely a result of two budget-neutral fund shifts to utilize remaining balances from the Coronavirus Relief Fund (CRF) and ARPA monies that had been provided to the State in place of state revenues.

Operations Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	951,929,248	945,213,079	129,066,576	163,004,603
Other Funds	60,454,097	19,134,555	816,192,267	817,275,611
Total Funds	**1,012,383,345**	**964,347,634**	**945,258,843**	**980,280,214**
Positions	3,381	3,377	3,384	3,386
FTE	3,368.18	3,369.19	3,314.25	3,315.04

Program Description

The Operations Division is responsible for the security and operation of the 13 existing adult correctional institutions. Functions of this Division include institution operations, security, food service, adult in custody work programs, intake, and transportation.

Revenue Sources and Relationships
Other Funds revenues originate from a variety of sources including: services provided by adult in custody work crews, meal tickets, and canteen sales; sale of items produced by adult in custody work and training programs; and Inmate Welfare Fund revenues received from adults in custody or adult in custody-related sources such as canteen profits, vending machines, and copiers.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $945.3 million total funds is 6.6% less than the 2019-21 legislatively approved budget, due primarily to the closure of two prisons, Mill Creek Correctional Facility on July 1, 2021, and Shutter Creek Correctional Institution on January 1, 2022. Other causes included caseload reductions and reorganizations that moved programs and staff to other DOC programs that have no impact on the overall budget for the agency. A one-time reduction of $800 million General Fund was replaced with $800 million Other Funds from the American Rescue Plan Act Coronavirus State Fiscal Recovery Funds for maintaining public safety services in the prisons.

Budget changes included:

- A reduction of $25.1 million General Fund, $3.6 million Other Funds, and 53 positions (114.50 FTE) to implement the closures of the Mill Creek and Shutter Creek correctional facilities.
- The addition of $16.4 million General Fund and 87 ongoing positions (87.00 FTE) in the Security, Food Services, Transport, Laundry, and Physical Plant programs. These ongoing positions are intended to reduce the use of mandatory overtime throughout the prison system.
- A reduction of $6.5 million General Fund and 25 positions (25.00 FTE) to:
    - Transferred management oversight and budget responsibility for prison law libraries from the Operations Division to the Correctional Services Division.
    - Centralized Department of Justice service reimbursements in the Central Administration Division.
    - Moved two positions (2.00 FTE) to the Administrative Services Division to manage workload in the Human Resources program.
    - Moved three positions (3.00 FTE) to the Correctional Services Division to better align programs operationally.
- A reduction of $1.2 million General Fund was taken to bring operational expenditures into alignment with the April 2021 prison population forecast.
- One-time ARPA funding of $1.1 million Other Funds for non-bondable capital project costs.

Additionally, HB 2932 (2021) added $260,574 General Fund and one position (1.00 FTE) to the Operations Division to implement use-of-force reporting to the National Use of Force Data Collection maintained by the Federal Bureau of Investigation.

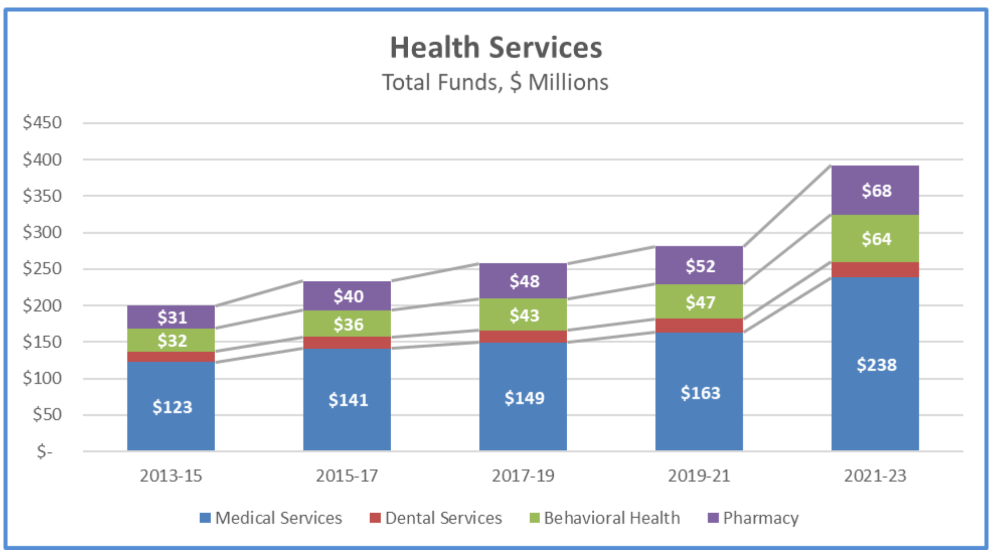
Legislatively Approved Budget Update
The 2021-23 legislatively approved budget of $980.3 million total funds is 3.7% higher than the adopted budget. This increase included $33.9 million General Fund and $1.1 million Other Funds expenditure limitation for previously approved compensation plan changes. Two positions were added to the Operations Division. A limited duration administrative position (0.25 FTE) was added to serve as a liaison to the Governor's Gender-Response Coordinator and a permanent Correctional Captain (0.54 FTE) to oversee emergency response exercises required as part of HB 4068 (2022).

Health Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	294,133,194	310,697,434	318,968,468	252,346,006
Other Funds	715,055	774,404	68,347,741	143,064,789
Federal Funds	3,494,360	4,734,976	4,734,976	4,734,976
Total Funds	**298,342,609**	**316,206,814**	**392,051,185**	**400,145,771**
Positions	635	615	644	644
FTE	618.13	601.77	624.77	624.77

Program Description

Adults in custody are constitutionally entitled to health care at the community standard of care. The Department provides medical, dental, behavioral 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, the Two Rivers Correctional Institution, or the Coffee Creek Correctional Facility. 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 98% of the services are provided at a DOC facility, but the cost of the remaining 2% of services, which are provided outside of DOC facilities, can range up to one quarter of the total Health Services unit's spending in any given biennium.

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 in-patient, longer-term care is provided in a hospital outside of prison. The adult in custody population is aging, and many adults 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 210 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 significantly since 2015, at a cost of about $25 million per biennium.

Revenue Sources and Relationships

Other Funds revenue is generated from charges to adults in custody to offset the General Fund cost of non-medically necessary 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, and HB 3265 (2021) eliminates the state's ability to apply for the grant after 2021.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $392.1 million total funds is 31.4% greater than the 2019-21 legislatively approved budget and includes 644 positions (624.77 FTE). Significant investments in DOC Health Services for 2021-23 include:

- $28.8 million General Fund to pay for Hepatitis C treatments for up to 2,000 patients.
- $19.1 million General Fund for other unbudgeted health services expenses, including the cost of treating hemophiliac patients and diabetics, the costs of off-site medical care, and services of contract providers to address medical staff shortages.
- $6 million General Fund to backfill a loss of revenue in the Inmate Welfare Fund, thereby preserving alcohol and drug treatment services for adults in custody.
- $3.8 million General Fund on a one-time basis and nine limited-duration positions (9.00 FTE) to support the Department of Justice's litigation of both habeas corpus cases and class-action lawsuits filed by adults in custody against the Department during the COVID-19 pandemic.
- $5.2 million General Fund and 20 positions (20.00 FTE) to reduce the use of unplanned overtime in the Health Services program.
- $13.4 million Other Funds expenditure limitation from the proceeds of Article XI-Q bonds to implement an electronic health records system, with an additional $5 million Other Funds expenditure limitation from ARPA funds for the non-bondable costs of the new system.

Additional budget changes include:

- A reduction of $3.1 million General Fund and 6.00 FTE to reflect the closure of the Shutter Creek Correctional Institution on January 1, 2022.
- A reduction of $2.3 million General Fund to bring Health Services expenditures into alignment with the April 2021 prison population forecast.
- A one-time reduction of $49.2 million General Fund and an increase of $49.2 million Other Funds expenditure limitation to allow the Department to offset COVID-19 pandemic-related expenses incurred during the first six months of the 2021-23 biennium using federal CARES Act funding transferred to the Department of Corrections.

Legislatively Approved Budget Update

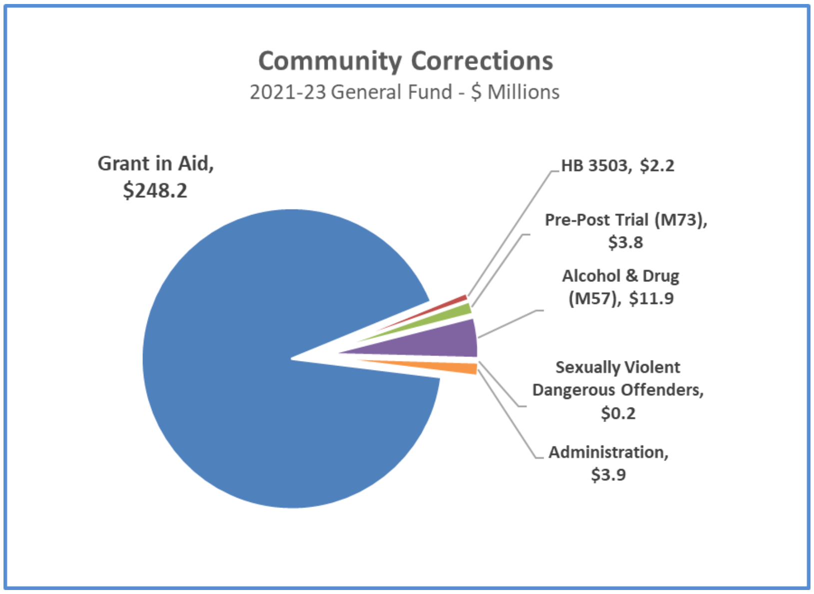
The 2021-23 legislatively approved budget of $400 million total funds is an $8 million net increase from the legislatively adopted budget. The approved budget includes a one-time reduction of General Fund and an increase in Other Funds expenditure limitation of $74.7 million to utilize remaining available ARPA funding. Overall, the General Fund budget for Health Services is reduced by $66.6 million when including the ARPA fund shift and salary and compensation adjustments. There were no changes to positions or FTE in the legislatively approved budget.

Community Corrections

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	290,830,743	290,985,345	307,207,567	307,806,263
Other Funds	7,640,683	7,488,150	6,441,863	6,441,863
Total Funds	**298,471,426**	**298,473,495**	**313,649,430**	**314,248,126**
Positions	76	76	76	76
FTE	76.00	76.00	76.00	76.00

Program Description

This budget provides funding to 34 counties for administering the community corrections program. DOC operates the 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, including grants from the Justice Reinvestment Initiative operated by the Criminal Justice Commission.

The primary source of Other Funds revenue in the Community Corrections budget is the Criminal Fine Account ($4.8 million) to support distributions to counties for correction programs, facilities, and alcohol and drug programs.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $313.6 million total funds is 5.1% more than the 2019-21 legislatively approved budget. Significant changes in the Community Corrections budget include:

- $1 million General Fund to backfill a loss of revenue in the Inmate Welfare Fund, thereby preserving distributions to county Community Corrections programs.
- $32.7 million General Fund to improve both the current service level of funding for counties and the method for maintaining current service levels going forward.
- A reduction of $34.5 million General Fund to reflect the April 2021 corrections population forecast. The unusually large reduction includes the reduction in the Community Corrections population attributable to the effects of Ballot Measure 110 (2020), which decriminalized possession of user amounts of many controlled substances.
- $10 million General Fund to backfill the loss of fee revenues counties will experience on passage of SB 620 (2021). This funding will be allocated to counties based on the grant-in-aid formula currently in place for the 2021-23 biennium.

Additionally, SB 497 (2021) added $7.1 million General Fund to Community Corrections to fund county caseload increases associated with assuming responsibility for the community-based supervision of those convicted of designated person misdemeanors including domestic violence.

Legislatively Approved Budget Update

The Community Corrections legislatively approved budget increased by $598,696 General Fund due to adjustments for previously approved compensation plan changes, with no changes to positions or FTE.

Correctional Services

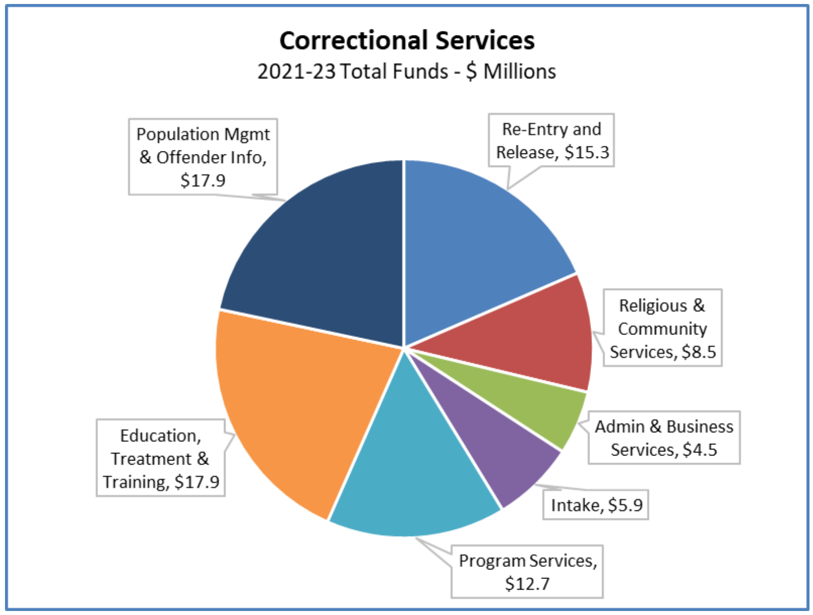
	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	79,598,424	74,407,623	80,064,072	82,466,022
Other Funds	10,524,756	10,779,428	2,475,511	2,575,511
Federal Funds	--	--	--	--
Total Funds	**90,123,180**	**85,187,051**	**82,539,583**	**85,041,533**
Positions	211	210	233	237
FTE	210.50	209.50	231.75	232.75

Program Description

The Correctional 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, adult in custody 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 ten institutions, and is funded with both grants and with General Fund.

Revenue Sources and Relationships
Other Funds revenue consists of adult in custody welfare funds to support alcohol and drug programs, charges for the adult in custody 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 2021-23 legislatively adopted budget of $82.5 million total funds is 8.4% less than the 2019-21 legislatively approved budget, which reflects an organizational change that moved some alcohol and drug treatment programs from this division to the Health Services Division. Other changes include:

- A reduction of $374,342 General Fund and 0.75 FTE for one chaplain position eliminated with the closure of the Shutter Creek Correctional Institution for eighteen months of the 2021-23 biennium.
- A reduction of $8.3 million Other Funds expenditure limitation to recognize a loss of revenue to the Inmate Welfare Fund, and an increase of $2.3 million General Fund to preserve system-wide treatment and education programs for adults in custody.
- A reduction of $655,936 General Fund to reflect the April 2021 corrections population forecast.
- A technical adjustment that increases General Fund by $4.4 million and adds 23 positions, to:
  - Transfer management oversight and budget responsibility for prison law libraries from the Operations Division to the Correctional Services Division.
  - Centralize Department of Justice service reimbursements in the Central Administration Division.
  - Move three positions (3.00 FTE) to the Correctional Services Division from the Operations Division to better align programs operationally.

Legislatively Approved Budget Update
The Correctional Services Division legislatively approved budget is increased by $2.5 million total funds due to adjustments for previously approved compensation plan adjustments and passage of SB 1522 which included requirements for online learning opportunities at the Coffee Creek and Snake River Correctional facilities. Included in SB 1522 is $252,842 General Fund and four positions (1.00 FTE) for the online education and skills development programs.

Central Administration and Administrative Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	193,271,410	208,003,597	196,505,006	194,636,702
Other Funds	12,260,108	11,913,576	56,843,958	57,274,575
Other Funds (NL)	--	--	--	--
Federal Funds	1,039,222	--	--	--
Total Funds	**206,570,740**	**219,917,173**	**253,348,964**	**251,911,277**
Positions	428	424	444	448
FTE	426.25	421.88	441.88	442.88

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; as well as debt financed cost of bond issuance. Federal Funds revenue is from a grant related to the federal Prison Rape Elimination Act.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $253.3 million total funds is a 22.6% increase from the 2019-21 legislatively approved budget.

Budget adjustments included:

- A cut of $132,235 General Fund to reduce the centralized functions that support the Shutter Creek Correctional Institution, including finance, adult in custody trust accounting, and the Office of the Inspector General.
- Statewide budget reductions totaling $15 million total funds for reductions to State Government Service and Attorney General charges and for the statewide Microsoft 365 consolidation project.
- $4.1 million Other Funds expenditure limitation and 17 positions (17.00 FTE) to monitor and support the adult in custody communication system. Funding for these positions is paid by the communications services provider.
- $1.2 million General Fund on a one-time basis to pay increased Department of Justice charges related to habeas corpus cases and class-action lawsuits filed by adults in custody during the COVID-19 pandemic.
- $37.2 million Other Funds expenditure limitation (ARPA funds) on a one-time basis to address facility maintenance and repair projects that are too small to meet capitalization requirements for bond financing.
- An increase of $2.2 million General Fund resulting from the agency-wide consolidation of Department of Justice charges in the Central Administration Division.

Legislatively Approved Budget Update

The legislatively approved budget is $1.4 million total funds less than the legislatively adopted budget for Central Administration and Administrative Services. This is the net result of technical adjustments to move funding from Central Administration to Operations for facility repair and maintenance projects, salary compensation adjustments, and passage of SB 1522 (2022) which included requirements for online learning opportunities for AICs at Coffee Creek and Snake River Correctional facilities. Included in SB 1522 is $680,737 General Fund and four positions (1.00 FTE) for the online education and skills development programs.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	112,948,840	96,243,571	105,285,474	105,180,474
Other Funds	66,358	--	700,870	805,870
Other Funds (NL)	214,566,938			
Federal Funds (NL)	940,120	--	--	--
Total Funds	**328,522,256**	**96,243,571**	**105,986,344**	**105,986,344**

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

General Fund supports most Department debt service obligations. Other Funds are unused balances in various capital financing accounts that are used to offset General Fund debt service.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for debt service of $106 million total funds is 68% less than the 2019-21 legislatively approved budget, which included a one-time debt refinancing of $214.6 million. Newly authorized capital construction bonds will be issued throughout the 2021-23 biennium, with $9 million additional debt expenditure anticipated to be incurred in the 2021-23 biennium. Debt service is 4.9% of the Department's 2021-23 total funds budget.

Legislatively Approved Budget Update

The legislatively approved budget includes a net-zero fund shift of $105,000 between General Fund debt service and Other Funds debt service.

Capital Improvement

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,931,801	3,057,869	3,057,869	3,057,869
Total Funds	**2,931,801**	**3,057,869**	**3,057,869**	**3,057,869**

Program Description

This budget unit captures maintenance and asset protection expenditures for the agency's 13 institutions and approximately 5.4 million square feet of building space. Qualified projects must be less than $1 million. If a project's cost exceeds $1 million they are categorized as capital construction.

Revenue Sources and Relationships

This budget unit is supported solely by General Fund.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $3.1 million General Fund is 4.3% higher than the 2019-21 legislatively approved budget due to standard statewide increases for this program.

Legislatively Approved Budget Update
No adjustments were made for Capital Improvement in the legislatively approved budget.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	47,110,068	--	73,508,206	73,508,206
Total Funds	**47,110,068**	**--**	**73,508,206**	**73,508,206**

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 2020) estimated to cost more than $260 million.

Legislatively Adopted Budget
The Legislature approved $73.5 million in Other Funds capital construction expenditure limitation for expenditure of Article XI-Q bond proceeds to continue addressing its deferred maintenance and capital construction requirements ($70 million) and to update its prison telephone infrastructure ($3.5 million). Bonds will be issued throughout the biennium, requiring new debt service of $9 million General Fund in the 2021-23 biennium.

Legislatively Approved Budget Update
No adjustments were made for Capital Construction in the legislatively approved budget.

CRIMINAL JUSTICE COMMISSION

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	79,372,798	72,585,036	89,347,638	126,488,341
Lottery Funds	555,000	578,865	578,865	578,865
Other Funds	15,011,498	7,411,165	21,258,537	47,413,825
Federal Funds	12,162,164	5,664,770	5,664,770	5,680,710
Total Funds	**107,101,460**	**86,239,836**	**116,849,677**	**180,161,741**
Positions	23	19	22	26
FTE	21.51	19.00	22.00	24.52

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.

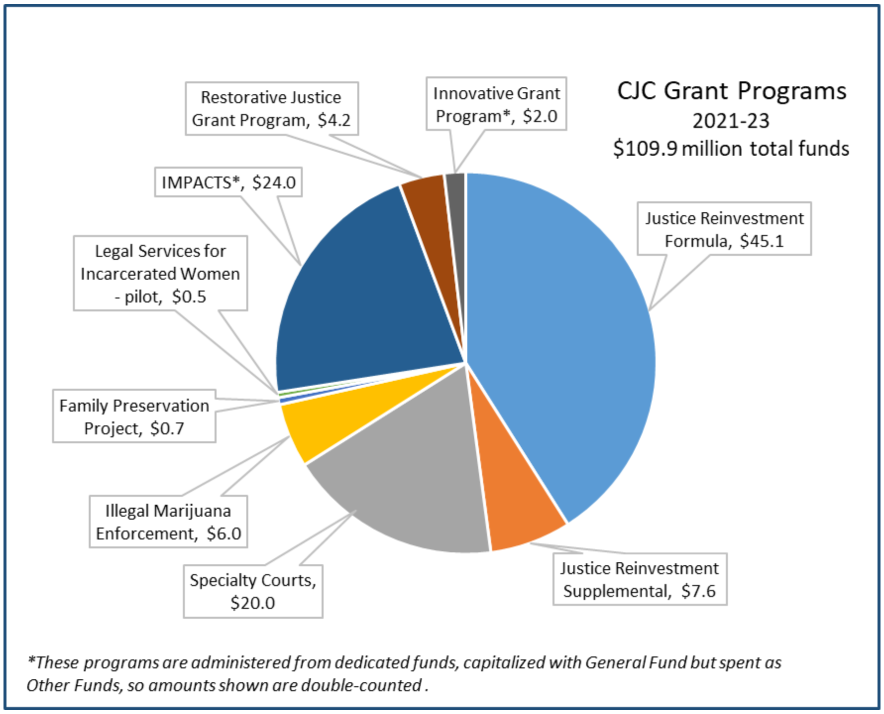
The agency's responsibilities continue to grow. HB 2355 in 2017 added the Statistical Transparency of Policing (STOP) program and expanded the Justice Reinvestment Grant program by adding funding specifically for downward departure prison diversion programs provided by counties. In 2018, SB 1544 created the Illegal Marijuana Market Enforcement Grant (IMMEGP) program to support local law enforcement agencies in their efforts to address the illegal marijuana market in Oregon. In 2019, legislation on bias crimes (SB 577) added responsibility for analyzing bias incident data to the CJC's portfolio, and SB 973 created the Improving People's Access to Community-based Treatments, Supports, and Services (IMPACTS) program, which provides grants to tribal and local governments to support individuals with both mental health or substance abuse disorders and involvement in the criminal justice system. In 2021, the Legislature added capacity to the STOP program, continued funding for the IMPACTS program, recapitalized the IMMEGP program, and created both an Innovative Grant Program and a Restorative Justice grant program.

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 grants from the federal Edward Byrne Memorial Justice Assistance Grant program.

Budget Environment

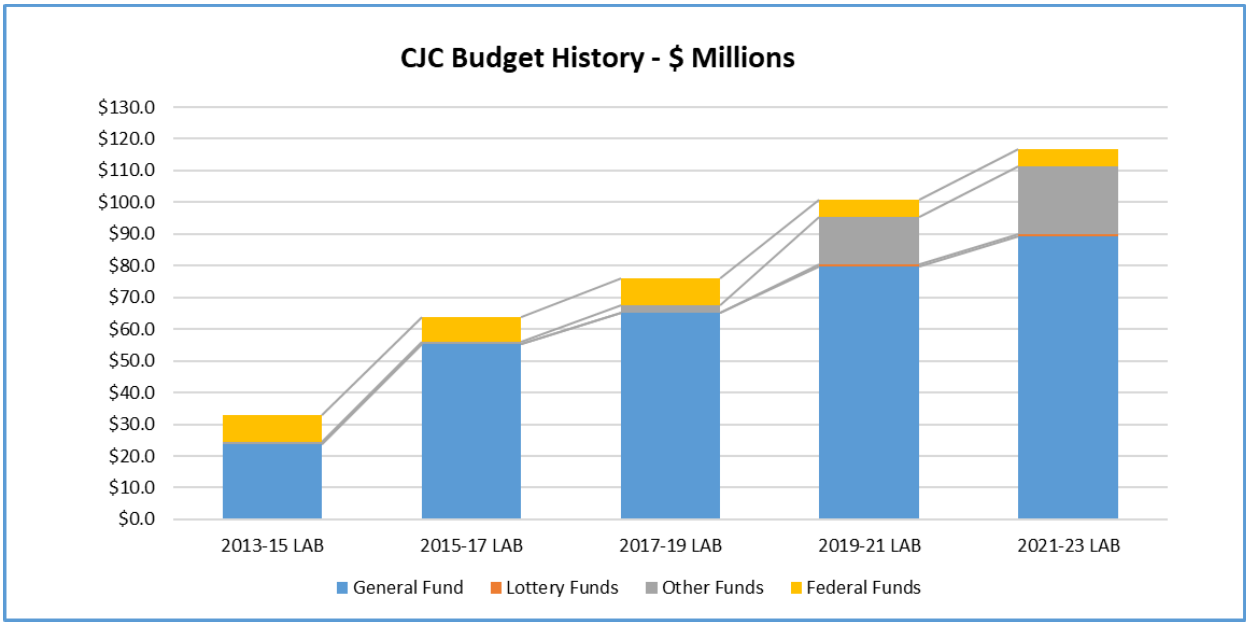
Funding for the Commission's grant-making programs makeup 94% of the budget. The Justice Reinvestment Initiative (JRI) and the JRI supplemental grant program make up 45% of the budget and total $52.7 million for 2021-23. The JRI Grant Program, passed in 2013 (HB 3194), is Oregon's approach to controlling 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 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 four years since its passage.



The number of grant and/or research programs operated by the agency has grown steadily since 2013. The Statistical Transparency of Policing (STOP) program was created in 2017 (HB 2355), with supplemental resources added to the CJC's budget in both 2019-21 and 2021-23. Last biennium saw the creation of the $10 million Improving People's Access to Community-based Treatment, Supports, and Services (IMPACTS) program, which was re-capitalized with $10 million General Fund in the 2021-23 budget. A legal services pilot program at the Coffee Creek Correctional Facility created by HB 2631 in 2019 was extended into the 2021-23 biennium with $500,000 General Fund, as was the Family Preservation Project operated by YWCA of Greater Portland, with $650,000 General Fund. New grant programs in 2021-23 include the Innovative Grant Program funded with $1 million General Fund in HB 2049 (2021), to fund new statewide programs that demonstrate a strong potential to have a positive impact on public safety; and the Restorative Justice grant program funded with $4 million General Fund to develop new restorative justice services and to strengthen existing non-profit organizations that are leaders in restorative justice practices.

The remaining 6% of the CJC budget, $6.9 million total funds and 13 positions (13.00 FTE), supports the Statistical Analysis Center, planning and policy development, and oversight of asset forfeiture and sentencing guidelines. Recent legislation requiring analysis and reporting includes HB 2355 (2017), requiring annual reporting on traffic and pedestrian stops statewide; SB 577 (2019), requiring annual reporting on bias crimes; and HB 2932 (2021), requiring annual reporting on use-of-force data reported by Oregon law enforcement units to the National Use of Force Data Collection maintained by the Federal Bureau of Investigation.

The following display illustrates the increase 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 and to the new grant programs added in 2019-21 and 2021-23. 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.



Legislatively Adopted Budget

The CJC 2021-23 legislatively adopted budget of $116.8 million total funds is a 9.1% increase from the 2019-21 legislatively approved budget. This budget reflects an increase of $10 million General Fund, an increase in Other Funds expenditure limitation of $6.2 million, and a reduction in Federal Funds of $6.5 million due to removal of supplemental Edward G. Byrne Memorial Justice Assistance grant funding awarded on a one-time basis through the CARES Act in May 2020. Positions decreased by 1 (0.49 FTE) for a total of 22 (22.00 FTE).

It should be noted that the re-capitalization of the IMPACTS program double-counts its total legislatively adopted funding level by $10 million due to the $10 million General Fund appropriation being deposited in the IMPACTS account. Expenditures from the IMPACTS account are recorded as Other Funds when spent. The same is true of the Innovative Grant Fund program, capitalized with $1 million General Fund, with $1 million Other Funds expenditure limitation established in order to make grants from the fund.

The 2021-23 legislatively adopted budget included the following General Fund increases:

- $10 million on a one-time basis to recapitalize the Improving People's Access to Community-based Treatment, Supports, and Services grant account.
- $500,000 on a one-time basis to continue a legal services pilot program for women incarcerated at the Coffee Creek Correctional Institution in Wilsonville. This funding will allow the pilot program to operate until its sunset date on December 31, 2021.
- $650,000 for the Family Preservation Project operating at the Coffee Creek Correctional Facility. The Criminal Justice Commission will administer payments for this program, which is provided by the YWCA of Greater Portland.
- $4 million on a one time basis for a new restorative justice grant program. The goal for this program is to develop new restorative justice services and to strengthen existing non-profit organizations that are leaders in restorative justice practices. An additional $228,395 was added on an ongoing basis for one permanent, ongoing position (1.00 FTE) to administer the program.
- $189,083 and one position (1.00 FTE) to provide additional research support for the Statistical Transparency of Policing (STOP) program.
- $1 million for the Innovative Grant Program established by HB 2049. This new grant program is intended to support public safety programs that demonstrate strong potential to have a positive impact on public safety, produce measurable outcomes, and benefit the entire state.

- $198,996 and one position (1.00 FTE) to monitor, gather, analyze, and report on the use of force data required to be reported to the National Use of Force Data Collection by all Oregon law enforcement agencies as required by HB 2932.
- $130,305 to support an administrative position formerly funded by grants.

Other Funds expenditure limitation increased by $13.8 million over the 2019-21 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.
- $1 million to make grant awards from the new Innovative Grant fund (HB 2049).
- $3 million to recapitalize the Illegal Marijuana Market Enforcement Grant Fund through its sunset date of October 1, 2023.
- $152,097 was reduced to reflect smaller than budgeted final grant payment amounts.

Legislatively Approved Budget Update

The CJC legislatively approved budget includes actions taken during the second special session of 2021 and the 2022 legislative session. The approved budget totals $180 million, a 54% increase from the legislatively adopted budget, with a total funds increase of $63 million. Of the increase, $37 million is General Fund, including $36.3 million in one-time investments, with another $26.2 million in accompanying Other Funds expenditure limitation. Positions increased by four (2.52 FTE) to bring the agency total to 26 (24.52 FTE) for the biennium.

One-time General Fund investments include $26 million for deposit into the IMMEGP program through SB 5561 (2021 second special session) and HB 4074 (2022), with $6 million of that total targeted toward grants to community-based organizations responding to the humanitarian crises associated with unlawful marijuana cultivation and distribution operations. With the expansion of the grant program to include community-based organizations, a limited duration position (0.63 FTE) was approved for the program.

SB 1510 (2022) included another one-time General Fund investment of $10 million for distribution to the Northwest Health Foundation II to fund a newly established Justice Reinvestment Equity Program (JREP). This program is intended to provide subgrants to culturally specific organizations and culturally responsive service providers for the purpose of promoting racial equity, reducing racial disparities, reducing recidivism, and decreasing a county's utilization of imprisonment. Along with $10 million, $200,000 was provided for a contract with an external evaluator to assess the new program, and $421,857 General Fund for the establishment of three permanent full-time positions (1.89 FTE) to compile and evaluate data and serve as the JREP Coordinator. Finally, a one-time General Fund appropriation of $300,000 was provided for the legal services pilot program first established by HB 2631 (2019) and then reestablished by HB 4050 (2022) operating at the Coffee Creek Correctional Facility.

DISTRICT ATTORNEYS

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	$14,332,414	$14,485,997	$14,783,245	$15,155,109
Total Funds	**$14,332,414**	**$14,485,997**	**$14,783,245**	**$15,155,109**
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. DA offices are funded with a combination of state, federal and county support.

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 civil commitment hearings, ruling on public records requests, representing interests in child dependency cases, assisting juvenile courts, and in a limited number of counties 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. Local law enforcement and the Oregon State Police provide DA offices with investigative support.

The state agency “District Attorneys” provides funding for: DA compensation; state government service charges, including tort liability; and grand jury recordation. Other than the 36 DA positions, the agency is unstaffed. Instead, the agency relies primarily upon the in-kind support from the Department of Justice (DOJ) to develop and execute the agency’s budget, which includes the distribution of DA compensation funding to county governments. There is one state funded position in the DOJ budget that supports DA training and conference planning. In lieu of agency staff support, the DAs rely largely upon the Oregon District Attorneys Association (ODAA), a 501c(6) non-profit Oregon corporation, that employs a full-time executive director who effectively serves as the administrator. ODAA provides legislative advocacy for district attorneys and is funded by dues paid from each DA office.

The state’s 36 DAs are considered state employees (management service) and by statute the state is responsible for funding their compensation, including salaries and wages plus other payroll expenses, including the standard state benefits plan. There is a two tier, annual compensation plan for DAs comprised of a single step pay range for each tier. DAs in counties with populations exceeding 100,000, which there are currently ten, are in Tier 1 and receive higher compensation. Tier 2 is comprised of all remaining counties. DAs are eligible for cost-of-living allowances and selective salary increases granted other state agency management service employees, as determined by the Department of Administrative Services. The following table summarizes DA compensation under the current compensation plan:

Compensation Tier	Salary and Wages	Other Payroll Expenses	Annual Compensation
Tier-1	$146,172	$62,619	$208,791
Tier-2	$124,188	$56,530	$180,718

Twenty-six counties have elected to provide supplemental compensation on top the state's compensation for their elected DA, with the remaining counties providing no supplement. No current estimate exists for annual supplemental compensation; however, past estimates ranged from $6,000 to $55,238 per year.

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 430 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 does, however, provides indirect support to the DAs through DOJ. 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 and Appellate Divisions support local DAs in criminal trial-level cases and matters relating to prosecution and law enforcement by providing trial and investigative assistance, technical-legal and prosecutorial advice and services, and legal education and training in criminal law and procedures. DOJ's Crime Victims and Survivor Services program also awards a variety of competitive and non-competitive state and federal grants for crime victim assistance, including funding for a few juvenile and domestic violence prosecutor positions.

The state, through DOJ's Appellate and Trial Divisions, defend cases in which the sentenced offenders challenge their convictions or sentences. In addition, the Legislature in 2017 began to fully fund DOJ's Child Advocacy Section to provide full representation of DHS Child Welfare caseworkers in court. 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.

DOJ's Division of Child Support is responsible for managing a statewide child support program; however, in 21 counties, the county DA enters into a cooperative agreement with DOJ to deliver services for some of the county's caseload, namely for participants who are not currently receiving public assistance or who formerly received assistance. Of note, is that even in cooperative agreement counties, DOJ manages the caseloads related to public assistance. For the remaining 15 counties, DOJ provides all child support services. By statute, DOJ provides funding for a DA liaison position for the Oregon Child Support Program.

Revenue Sources and Relationships

The funding of the DA budget is a General Fund obligation. Pursuant to a legislative budget note, the DAs completed a comprehensive report on the revenue sources funding DA offices. The report concluded that statewide, the estimated resources necessary to fund and operate DA offices, on a fiscal year basis, totals an estimated $184.8 million in state, local, and federal funding (FY 2022). Of this amount, the counties' contribution is estimated to be $140 million (75.8%), the state contribution is estimated to be $23.4 million (12.7%), and the federal government contribution, both direct and indirect, is estimated to be $21.4 million (11.6%). The report noted that historically the state's share was 19% in 1975 and 9% in 2000.

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 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 efficiently manage caseloads and just outcomes; and (3) limiting the amount of time, or prioritizing the amount of time, spent in preparation and prosecution of each case. There exists no centralized DA case management system making unavailable any statewide caseload reporting. There is presumed to be a backlog of existing criminal cases due to the pandemic, which may impact future prosecutorial activities.

As noted, DAs in 21 counties have cooperative agreements with DOJ to manage 38,416 child support cases (or 24.1% of the 159,456 state cases in 2020), which collected an estimated $169.4 million in child support payments in federal fiscal year 2020. This accounted for 43.4% of total child support program collections in Oregon. DOJ passes-through 66% federal matching funds to counties in order to fund a portion of these activities with each county being responsible for meeting required 34% state matching funds requirement. DOJ also passes through to cooperative counties federal incentive funding, based on federal performance metrics. Relatively recently, three counties terminated their cooperative agreements with DOJ, shifting full responsibility back to the Division of Child Support (Josephine County as of April 1, 2017, Benton County as of October 1, 2017, and Wasco County as of October 31, 2017). A county may consider terminating a cooperative agreement if the county is no longer willing or able to meet the 34% matching funds requirement or due to the strict federal regulatory requirements associated with managing a county program, which may be cost prohibitive for small counties (e.g., information technology and physical security requirements).

The Legislature in 2017 enacted SB 505, relating to recording of grand jury proceedings. Current law requires county district attorneys to electronically record all grand jury proceedings, and to store and maintain copies of the audio recording. On March 1, 2018, the measure was implemented in three pilot counties. The remaining 33 counties began implementation on July 1, 2019. State funding is provided directly to the DAs for a statewide transcription service, the storage and licensing and archiving of grand jury recordings, a technical support contact for the recording equipment, and an annual training on the recording equipment. The Judicial Department provides funding to purchase and maintain the recording equipment for DAs.

Legislatively Adopted Budget

The legislatively adopted budget for District Attorneys is $14.8 million General Fund and 36 positions (36.00 FTE) for the 2021-23 biennium. The budget includes $546,000 General Fund for the recording of grand jury proceedings. The budget is $450,831, or 3.2%, more than the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update

The legislatively approved budget for the District Attorneys totals $15.2 million for the 2021-23 biennium. The budget is $371,864, or 2.5%, more than the 2021-23 legislatively adopted budget due to adjustments for previously approved changes to the state's compensation plan for positions classified as Managerial Service.

DEPARTMENT OF EMERGENCY MANAGEMENT

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	30,488,049
Other Funds	--	--	--	94,495,733
Federal Funds	--	--	--	702,235,505
Total Funds	**--**	**--**	**--**	**827,219,287**
Positions	--	--	--	94
FTE	--	--	--	47.01

Overview

The Department of Emergency Management (ODEM) is established as a new state agency through HB 2927 (2021) effective July 1, 2022. Formerly the Office of Emergency Management housed within the Oregon Military Department, ODEM coordinates statewide emergency services and maintains emergency communications systems used for public warnings, emergency notifications, and emergency support. ODEM 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 an Administrative function that includes the Director's Office and the state Search and Rescue program, the agency's primary programs are:

- Emergency Preparedness and Response -- executing planning, training, and exercise programs to raise awareness and preparedness for all hazard incidents. This includes the Homeland Security grant programs, Emergency Operations Plans, the Geological Hazard Program, the National Incident Management System, and the State Emergency Coordination Center.
- 9-1-1 Emergency Program -- includes operation and management of the network that delivers 9-1-1 emergency calls to Oregon's 43 Public Safety Answering Points throughout the state.
- Mitigation and Recovery Program -- coordinating the development, planning, and adoption of local community hazard mitigation plans, flood mitigation and fire assistance grant programs, pre-disaster grant program, and disaster recovery payments.
- Debt Service -- General Fund debt service for general obligation bonds issued for the State Preparedness and Incident Response Equipment (SPIRE) grant program.

Revenue Sources and Relationships

The Department's 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 ODEM 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. Federal Funds expenditure limitation for FEMA disaster recovery funding assumed in the 2021-23 legislatively approved budget has been significantly more than either was assumed in the 2019-21 legislatively adopted budget or received during the 2019-21 biennium due to the number of federal disaster declarations made in 2020 and 2021, including the COVID-19 pandemic, the Labor Day and other 2020 wildfires, the flooding and landslides disaster in February 2020, and the February 2021 ice storm.

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 tax for any phone line capable of accessing 9-1-1 services, excepting federal, state, and local governments. 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 tax sunset date from 2022 to 2030 and adjusted the administrative and collection cost caps.

The Emergency Communications Account is distributed quarterly according to statute for program administration costs, for communications equipment funded from the Enhanced 9-1-1 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

At the time of the legislatively adopted budget, the Office of Emergency Management (OEM) existed as a program within the Military Department. The budget for OEM included 91 positions (91.00 FTE) and had the following investments that ultimately are included as part of the establishment of ODEM:

- $3,341,187 General Fund, $4,422,518 Federal Funds expenditure limitation, and 35 positions (35.00 FTE) to maintain and enhance recovery efforts from federally declared disasters in Oregon and to enhance the state's disaster-planning capabilities.
- $1,345,752 General Fund, $2 Federal Funds expenditure limitation, and a reduction of $1,349,509 Other Funds expenditure limitation for a fund shift of eight positions from Other Funds Emergency Communications Tax revenue to the General Fund, necessitated by a reduction in the allowable administrative percentage of tax collections from 4% to 2.4% made by HB 2449 (2019).
- An increase of $40 million Other Funds expenditure limitation to allow the 9-1-1 program to pass through increased Emergency Communications Tax revenues to public safety answering points and to make deposits into the Enhanced 9-1-1 Subaccount for network and database equipment costs.
- $2.7 million General Fund on a one-time basis for the state's share of the FEMA-reimbursable cost of urban search and rescue teams deployed during the Labor Day wildfires in 2020, and $20 million General Fund to provide state matching payments for the FEMA Hazard Mitigation Grant program.
- $820 million Federal Funds expenditure limitation in order for the agency to process federal disaster reimbursement payments as quickly as possible.
- $10 million Other Funds expenditure limitation for the State Preparedness and Incident Response Equipment (SPIRE) grant program, recapitalized with the proceeds from the sale of Article XI-Q bonds. $210,000 Other Funds expenditure limitation was provided for the cost of bond issuance.
- $700,003 General Fund and two positions (2.00 FTE) to prepare for or respond to wildfire emergencies on an area-wide or statewide basis. This funding was provided in SB 762 (2021).
- $3,431,834 General Fund and ten positions (10.00 FTE) to establish the Office of Emergency Management as a stand-alone agency effective July 1, 2022.

Legislatively Approved Budget Update

HB 5202 (2022) included the necessary funding to establish ODEM effective July 1, 2022. The new Department's budget totals $30.5 million General Fund, $94.5 million Other Funds, and $702 million Federal Funds and includes 94 positions (47.01 FTE).

The new agency will be structured with five major programs:

- Administration program includes $7,896,756 General Fund, $484,877 Other Funds and 38 positions (18.83 FTE).
- 9-1-1 Emergency program, which is 100% Other Funds supported, totaling $68,337,111 and 10 positions (5.36 FTE).
- Preparedness and Response program includes several federal grant programs like the Emergency Management Performance Grants, Homeland Security Grants, Regional Catastrophic Preparedness Grants,

Geohazards Grants, and the SPIRE Grant program, which is funded by bond funding. $757,611 General Fund, $5,673,745 Other Funds, $37,092,457 Federal Funds and 22 positions (10.82 FTE) make up this program.

- Mitigation and Recovery program includes the federal Fire Assistance Grants, Flood Mitigation Assistance Grants, Pre-Disaster Grants, Hazard Mitigation Grants, and this program is also where Public Assistance and Individual Assistance funding would flow through for FEMA disaster-related payments. The program includes $665,143,048 Federal Funds and 22 positions (11.00 FTE).
- Bond Debt Service consists of $1,576,705 General Fund related to bonds issued for the SPIRE grant program.

Additional adjustments to the new ODEM budget include:

- $20 million General Fund deposited into the Local Disaster Assistance Loan and Grant Account for the Hazard Mitigation Grant Program which is part of the Mitigation and Recovery program listed above. Depositing the funding will allow the new Department to expend the funds beyond the 2021-23 biennium if necessary. A corresponding $20 million Other Funds expenditure limitation was also provided to execute loans and grants.
- $256,977 General Fund and two positions to staff the Homeland Security Council, conduct emergency exercises, and establish an emergency stockpile plan and recommendation as part of HB 4068 (2022).

DEPARTMENT OF JUSTICE

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	117,790,118	115,524,731	153,050,242	184,833,758
Other Funds	373,423,466	382,228,947	379,645,656	425,118,165
Federal Funds	216,470,717	158,962,562	185,198,126	187,675,747
Total Funds	**707,684,301**	**656,716,240**	**717,894,024**	**797,627,670**
Positions	1,458	1,421	1,482	1,501
FTE	1,421.38	1,411.73	1,463.05	1,467.49

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

Revenue Sources and Relationships
For the 2021-23 biennium, General Fund support accounts for 21% 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 53% of the budget and include charges to agencies for legal services, Tobacco Settlement Funds Account, legal settlements, license and other fees, charges, and fines. The Legislature repealed three reappropriations from DOJ's Operating Account (SB 846): Legal Services Fund ($2 million); Charities Activities ($2.3 million); Medicaid Fraud ($800,000).

DOJ generates the majority of its Other Funds revenue from charges to state agencies for legal services. The legal services rate (also known as the Attorney General rate) is established as part of the legislative budget process. The Attorney General rate for the 2021-23 legislatively adopted budget is $242 and is estimated to generate $272 million, with a projected ending balance of $13.8 million. This represents approximately 1.25 months of operating capital reserve for the Legal Services Fund. The increase in the legal services rate from $214 in the 2019-21 biennium to $242 is an increase of $28 per hour or 13.1%

Federal Funds make up 26% 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 a lawsuit with the timber counties.

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 $717.9 million total funds, including $153.1 million General Fund, $379.6 million Other Funds, and $185.2 million Federal Funds. The total funds budget is $10.2 million, or 1.4%, more than the 2019-21 legislatively approved budget. The budget includes 1,482 positions (1,463.05 FTE).

Key provisions of the adopted budget include:

- $22.2 million Federal Funds and three positions (2.64 FTE) for the continuation of a Victims of Crime Act grant.
- $6 million General Fund for a one-time investment in Child Abuse Intervention Centers.
- $5.6 million General Fund and $6.2 million Federal Funds for various Division of Child Support investments, most notably for the payment of indirect charges, legal billings, Child Support Enforcement Automated System (CSEAS) application State Data Center hosting, and one-time CSEAS operational and maintenance support.
- $5.3 million General Fund for a Division of Child Support revenue shortfall in the recovery of Temporary Assistance to Needy Families.
- $5 million General Fund for a one-time investment to assist victims of domestic violence and sexual assault with housing needs.
- $4.9 million General Fund for the Crime Victim and Survivor Services Division to backfill a revenue shortfall in punitive damage awards.
- $3.2 million Other Fund (Legal Services Fund) and ten positions (8.04 FTE) for the General Counsel Division to support legal services provided to state agencies.
- $2.1 million Other Funds and eight positions (7.04 FTE) for the Trial Division to address the U.S. Supreme Court decision of Ramos v. Louisiana (nonunanimous juries). This funding was unscheduled until the decision can be better understood.
- $2 million General Fund and six positions (5.25 FTE) for bias crimes response.
- $1.8 million General Fund for the Defense of Criminal Convictions in Appellate and Trial Divisions.

- $1.8 million and five positions (4.75 FTE) for the continuation of the Legal Tools Replacement information technology project.
- $1.6 million General Fund to fund shift the Environmental Crimes and Cultural Resources Enforcement Unit from Other Funds to General Fund.
- $1.3 million General Fund for supplemental pass-through support for the Oregon Crime Victims Law Center.
- $1.3 million Other Funds and four positions (3.52 FTE) For the Trial Division for supplemental staffing of special litigation cases.

Legislatively Approved Budget Update

The legislatively approved budget for the Department of Justice totals $797.6 million for the 2021-23 biennium. The budget is $79.7, or 11.1%, more than the 2021-23 legislatively adopted budget. The budget includes 1,501 positions (1,467.49 FTE), which is a 19 position (4.44 FTE) increase over the legislatively adopted budget.

Major investments in the approved budget include:
- $15 million Other Funds expenditure limitation, on a time-time basis, for community-based violence prevention grants funded from ARPA moneys.
- $11.3 million General Fund, on a time-time basis, for a potential revenue shortfall in the federal Victims of Crime Act grant.
- $10 million General Fund, on a time-time basis, for state-funded grants to domestic and sexual violence service.
- $4.6 million General Fund, on a time-time basis, 13 limited duration positions (7.29 FTE), and $5.1 million Other Funds expenditure limitation for the Legal Tools Replacement information technology project. The revenue source of the Other Funds is Article XI-Q general obligation bond that will be issued in the spring of 2023 and fund a portion of project activities for the 2023-25 biennium.
- $2.8 million General Fund, on a one-time basis, for distribution to Court Appointed Special Advocates.
- $2 million Other Funds, on a one-time basis, expenditure limitation for distribution to nonprofit entities to assist survivors of domestic and sexual violence and human trafficking in maintaining or acquiring housing and that is funded from ARPA moneys.
- $2.3 million Other Funds expenditure limitation and nine permanent full-time positions (4.74 FTE) to address workload increases in the General Counsel Division.
- $940,753 Other Funds expenditure limitation reduction, an increase of $1.2 million General Fund, and one permanent full-time position (0.58 FTE) related DOJ's withdrawal from the federal government's High Intensity Drug Trafficking Area program beginning May 1, 2022.
- $797,076 Other Funds expenditure limitation and five permanent full-time positions (2.25 FTE) for legal challenges associated with wrongful conviction (SB 1584).
- $384,668 Other Funds expenditure limitation and two permanent full-time positions (1.00 FTE) for family treatment courts.
- $314,528 General Fund and one permanent full-time position (0.58 FTE) for the Commission on Statewide Law Enforcement Standards of Conduct and Discipline (HB 2930, 2021).

Administration

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	556,490	682,039	3,583,146	8,313,642
Other Funds	41,343,751	41,531,067	44,720,519	50,985,489
Total Funds	**41,900,241**	**42,531,067**	**48,303,665**	**59,299,131**
Positions	120	118	138	151
FTE	117.96	116.75	134.23	141.52

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 with the 2019-21 biennium, the division 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 unit also includes the Special Counsel to the Attorney General, legislative coordination, the Civil Rights 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; 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 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. 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 by the federal government.

Budget Environment

DOJ has 20 locations with 479,134 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. In 2019-21, 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 several failed attempts, the Legislature re-authorized the Legal Tools Replacement 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 2021-23 legislatively adopted budget of $48.3 million is $6.4 million, or 15.3%, more than the 2019-21 legislatively approved budget and includes 138 positions (134.23 FTE).

The adopted budget included the following:

- $1.8 million and five limited duration positions (4.75 FTE) for the Legal Tools Replacement 3.0 project.
- $481,000 Other Funds and one limited duration position (0.22 FTE) for grand jury recordation.
- $905,071 General Fund and four positions (3.50 FTE) for HB 3265 and to establish a staffed sanctuary violation hotline and to develop and implement processes for collecting and reporting information.

- $311,455 Other Funds and one permanent full-time Procurement Contract Specialist 2 position (1.00 FTE).
- $270,229 Other Funds and one limited duration position (1.00 FTE) for the agency's Facility Unit.
- $219,651 Other Funds and one permanent full-time Internal Auditor 3 position (0.88 FTE) to augment the internal audit capability.
- $191,597 Other Funds and one permanent full-time Accountant 2 position (0.88 FTE).
- $140,000 Other Funds for one-time information technology expendable property to replace end-of-life core network switches and wireless network controllers.
- $47,692 Other Funds for two position reclassifications.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $59.3 million for the 2021-23 biennium. The budget is $11 million (or 22.8%) more than the 2021-23 legislatively adopted budget. The budget includes 151 positions (141.52 FTE) and which is 13 positions (7.29 FTE) more than the legislatively adopted budget. $4.6 million General Fund, 13 limited duration positions (7.29 FTE), and $5.1 million Other Funds was added for the Legal Tools Replacement information technology project. The revenue source of the Other Funds is Article XI-Q general obligation bond that will be issued in the spring of 2023 and fund a portion of project activities for the 2023-25 biennium.

Appellate Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	372,761	401,704	379,329	379,329
Other Funds	24,465,186	25,702,553	26,175,359	27,088,773
Total Funds	**24,837,927**	**26,104,257**	**26,554,688**	**27,468,102**
Positions	59	57	58	59
FTE	57.00	56.50	57.38	57.59

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 - responding to arguments by offenders that the trial court made a legal error that affected the conviction or sentence. The program also handles 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 – responding to arguments by offenders whose convictions are final, usually challenging the effectiveness of counsel or, for federal habeas corpus, violations of federal constitutional rights.
- Civil and Administrative Appeals – litigating disputes over taxes, contracts, torts, civil commitments, juvenile dependency, challenges to statutes, professional and other licensing decisions, regulatory decisions that impose fines or other penalties, benefit decisions, and administrative rules.

Revenue Sources and Relationships

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.

Budget Environment
Since the Department is usually responding to appeals filed by others, it has little control over its workload. The Division handles between 3,000 and 4,000 cases (approximately one-half are criminal cases and the rest are civil cases) 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 the majority of cases in Oregon's Appellate courts. For defending criminal convictions, the goal is to brief cases within 182 days. 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 use of expert witnesses, increased amounts 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. SB 1013 (2019) limited the use of capital punishment to a narrow set of circumstances and now most such cases may not be prosecuted as capital aggravated murder cases, the only capital crime in Oregon.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $26.6 million is $1.7 million, or 6.9%, more than the 2019-21 legislatively approved budget and includes 58 positions (57.38 FTE). The adopted budget included the following:
- $316,789 Other Funds and one permanent full-time Assistant Attorney General position (0.88 FTE) for nonunanimous jury appeals related to the U.S. Supreme Court decision of Ramos v. Louisiana cases. The revenue source to fund this package is General Fund appropriated under the Defense of Criminal Convictions.
- $238,919 Other Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division.
- $19,856 Other Funds for the reclassification of two positions.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $27.5 million for the 2021-23 biennium. The budget is $913,414 (or 3.4%) more than the 2021-23 legislatively adopted budget. The budget includes 59 positions (57.59 FTE) which is 1 position (0.21 FTE) more than the legislatively adopted budget. $105,024 Other Funds expenditure limitation and one permanent full-time positions (0.21 FTE) for legal challenges associated with wrongful conviction (SB 1584, 2022).

Civil Enforcement Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	116,456,144	126,942,209	123,052,781	127,342,440
Federal Funds	5,147,494	5,442,675	5,418,134	5,562,135
Total Funds	**121,603,638**	**132,384,884**	**128,470,915**	**132,904,575**
Positions	305	305	301	304
FTE	297.02	302.79	298.79	300.67

Program Description
The Civil Enforcement Division is generally the state's plaintiff's civil litigation arm assisting state agencies and programs in seeking enforcement action or recovery of money. The Division also provides legal representation to the Division of Child Support and the Division of Human Services Child Welfare Program, along with operating programs overseeing consumer protection laws, charitable activities, and operating the Medicaid Fraud Control Unit.

The Civil Enforcement Division is organized as follows:

- Civil Recovery (CRS) – This Section serves as plaintiff's counsel for state agencies and programs. The Section's work spans a wide variety of legal topics, including but not limited to collections, breach of contract, bankruptcy, estate recovery and conservatorship/guardianship, as well as enforcement of agency statutory rights and claims to recover money or property. This section also represents the Division of Child Support in judicial proceedings to establish paternity and enforce child support orders.
- Child Advocacy (ChAS) – This Section helps protect abused and neglected children throughout Oregon, with a focus on assisting the Department of Human Services Child Welfare program (DHS) to reunify families and achieve safe and permanent placements for children in care. Section attorneys work closely with their support staff teams to provide legal advice and daily litigation support to the Oregon Department of Human Services Child Welfare Program, including representing DHS in juvenile dependency cases in juvenile and circuit courts throughout the state. In addition, this Section has a small group of attorneys who provide advice and administrative hearing support to the DHS Foster Case/Certification Program.
- Consumer Protection Section (CPS) – This Section investigates and prosecutes violations of the Unlawful Trade Practices Act. Investigations span a wide range of consumer activity, including consumer finance, privacy, health care, and telecommunications. Staff also work directly with consumers and businesses to informally resolve consumer complaints and to assist a team of community volunteers who staff DOJ's consumer hotline.
- Charitable Activities Section (CAS) – This Section oversees the activities of charitable organizations in Oregon to protect the public interest in charitable assets. The Section enforces laws related to nonprofit gaming, including issuing licenses for bingo, raffles, and other fundraising events that involve gambling. The Section may take civil legal actions against organizations that misuse charitable assets or engage in misleading solicitations.
- Medicaid Fraud Control Unit – This Section operates as a federally mandated program to investigate and prosecute billing fraud committed by Medicaid providers. In addition, this Section investigates and prosecutes physical abuse, neglect, and financial exploitation of Medicaid patients in connection with the delivery of health care services, as well as providing training and outreach relating to abuse in the Medicaid system.
- Tobacco Enforcement Unit – This Unit is responsible for ensuring compliance with the terms of the Tobacco Master Settlement Agreement and related statute. The Unit operates Oregon's Directory of Cigarette Brands Approved for Stamping and Sale and handles issues related to the ban on internet sales of cigarettes in Oregon.
- Antitrust and False Claims Unit – This Unit is responsible for conducting investigations and prosecuting false claims cases and addressing price fixing, mergers, and anticompetitive conduct.
- Foreclosure Avoidance (Mediation) Program – This program requires a face-to-face meeting, or dispute resolution conference, between a homeowner and any lender seeking to conduct a non-judicial foreclosure.

<u>Revenue Sources and Relationships</u>

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 2021-23 biennium, DOJ transferred $50.6 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

Beginning in 2017, and continuing in 2019, the Legislature provided enhanced funding for DOJ's Child Advocacy Section to provide full legal representation of DHS Child Welfare caseworkers in court in all 36 Oregon counties. Full legal representation was rolled out across the state in three phases, with implementation of the final phase concluded on July 1, 2019. DOJ's attorneys now attend all juvenile dependency hearings and trials across the state and in 2020 DOJ attorneys represented DHS Child Welfare in over 20,000 court appearances.

The Consumer Protection section anticipates a continued flow of consumer complaints. In 2019 and 2020, the consumer hotline received approximately 34,000 calls each year, with approximately 6,500 consumer complaints filed each year. Restitution to consumers totaled approximately $803,000 during that time period. 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 provisions of the Tobacco Master Settlement Agreement (MSA) and statutes relating to the escrow obligations of 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. That settlement was recently extended through 2022. 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 state 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 over 22,000 in 2021. The Charitable Activities Section must manage the registration paperwork for each charitable organization and ensure that the entities are protecting the public interest in their charitable assets. The Section is involved when there is a proposal to modify or terminate a charitable trust. The Section also manages licensing of nonprofit gaming organizations, which numbered approximately 670 in 2021. The pandemic had a significant impact on Section revenue from charitable gaming fees. For example, gaming revenue decreased from $102,000 in the first fiscal quarter 2019 to only $34,000 in the first fiscal quarter of 2020 as many bingo halls were closed, at least temporarily, due to the pandemic.

The Legislature adopted the Foreclosure Avoidance Program to address concerns about foreclosures stemming from the 2007-08 financial crisis. After reaching a monthly rate of over 1600 requests for mediation in April 2014, the rate has been steadily declining as the housing economy recovered. However, the pandemic-related state and federal moratoriums on most foreclosures had a significant impact on the program during 2020 and 2021, reducing the case requests to a low of 77 in November 2020. Case requests have been increasing again since March 2021 and the program expects that case requests will continue to rise as the foreclosure moratoriums are lifted. Since the inception of the program in April 2013 through June 2021, the program has received over 53,000 requests for resolution and over 11,000 homeowners have participated in mediation with their lender. Of these mediations, 4,691 resulted in an agreement between the homeowner and lender and 5,991 failed to reach an agreement. 81% of homeowners participating in the program report being satisfied or very satisfied with the program overall.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $128.5 million is $6.9 million, or 5.6%, more than the 2019-21 legislatively approved budget and includes 301 positions (298.79 FTE). The budget adopted included a $3.3 million Other Funds reduction that transferred four existing permanent full-time positions (4.00 FTE) in the Environmental Criminal and Cultural Resources Enforcement Unit to the Criminal Justice Division.

$707,238 Other Funds and $12,225 Federal Funds were added to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $132.9 million for the 2021-23 biennium. The budget is $4.4 million (or 3.5%) more than the 2021-23 legislatively adopted budget. The budget includes 304 positions (300.67 FTE) which is three positions (1.88 FTE) more than the legislatively adopted budget. $384,668 Other Funds expenditure limitation and two permanent full-time positions (1.00 FTE) were added for family treatment courts. $447,784 Other Funds expenditure limitation and one permanent full-time positions (0.88 FTE) for the Fair Housing Enforcement initiative was transferred from the General Counsel Division to Civil Enforcement.

Criminal Justice Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	15,025,032	15,760,159	18,471,887	20,458,120
Other Funds	9,922,125	9,547,798	9,765,873	9,032,207
Federal Funds	1,456,171	1,467,163	1,252,710	1,269,168
Total Funds	**26,403,328**	**26,775,120**	**29,490,470**	**30,759,495**
Positions	59	57	65	67
FTE	59.00	57.00	64.34	65.50

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.
- Analytical and Criminal and Investigative Support 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) - Investigative Service Center - Promotes, facilitates, and coordinates the exchange of criminal intelligence information and provides analytical case support and strategic analysis.

- 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.
- 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.
- 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, including cyber-related infrastructure, conducts seminars, and all crime briefings to the Regional Disaster Preparedness Organization.

Revenue Sources and Relationships

General Fund resources support organized crime, District Attorney assistance, the Watch Center, 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 were 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 a transfer from DPSST. As of June of 2021, the HIDTA grant program no longer funded the Watch Center in the ISC, which is now funded by a general fund appropriation. 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.

Budget Environment

From July 2019 to June 2021, the Division prosecuted 297 cases, conducted 276 investigations, and provided 1,560 service assists by prosecutors and law enforcement. 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. From July 2019 to June 2021, the unit processed and evaluated 7,004 cybertips, assisted in the investigation of 1,392 cases, which resulted in 68 arrests.

The Criminal Intelligence Unit and the Fusion Center offered case assistance covering a range of criminal activities, including amber alerts, illegal narcotics, homicides, public corruption, and terrorism-related crimes. From July 2019 to June 2021, the Fusion Center had 224 reports of suspicious activity, created 307 intelligence profiles, issued 909 intelligence publications, and conducted 21 threat and risk assessments. The Fusion Center conducted fewer threat and risk assessments this last biennium because of COVID-related restrictions on in-person assessments for facilities and event cancellations. The Fusion Center provided direct support to the Oregon Office of Emergency Management through the State Emergency Coordination Center (ECC) Critical Infrastructure Branch relating to various emergency activations, including COVID and wildfires.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $29.5 million is $3.1 million, or 11.7%, less than the 2019-21 legislatively approved budget and includes 65 positions (64.34 FTE).

The adopted budget included the following additions:

- $1.6 million General Fund to fund four existing permanent full-time positions (4.00 FTE) transferred from the Environmental Criminal and Cultural Resources Enforcement Unit in the Enforcement Division.
- $956,379 General Fund in place of Other Funds to support four existing permanent full-time positions (4.00 FTE) for the High Intensity Drug Trafficking Area (HIDTA) program. On May 21, 2020, the HIDTA Board voted to eliminate funding for Watch Center, beginning calendar year 2021.
- $673,173 Other Funds and two limited duration positions (2.00 FTE) for continuation of the Urban Area Security Initiative (UASI), and the State Homeland Security Program.
- $395,601 Other Funds and one permanent full-time position (0.88 FTE) for antipoaching activities.
- $214,439 Federal Funds to General Fund due to the elimination of a federal grant for the Internet Crimes Against Children program.
- $137,429 Other Funds and one limited duration position (0.46 FTE) for the UASI grant program.
- $26,796 General Fund, $98,036 Other Funds, and $1,701 Federal Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $30.8 million for the 2021-23 biennium. The budget is $1.3 million, or 4.3%, more than the 2021-23 legislatively adopted budget. The budget includes 67 positions (65.5 FTE) which is two positions (1.16 FTE) more than the legislatively adopted budget. Major investments include:

- A $940,753 Other Funds expenditure limitation reduction, an increase of $1.2 million General Fund, and addition of one permanent full-time position (0.58 FTE) related DOJ's withdrawal from the federal government's High Intensity Drug Trafficking Area program beginning May 1, 2022.
- $314,528 General Fund and one permanent full-time position (0.58 FTE) for the Commission on Statewide Law Enforcement Standards of Conduct and Discipline (HB 2930, 2021).

Crime Victim and Survivor Services Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	19,106,798	15,031,070	33,425,361	57,766,684
Other Funds	37,540,201	31,851,237	28,207,917	56,466,247
Federal Funds	73,583,913	21,183,312	43,745,586	43,863,954
Total Funds	**130,230,912**	**68,065,619**	**105,378,864**	**158,096,885**
Positions	42	39	52	52
FTE	40.08	37.56	47.70	47.70

Program Description

The Crime Victim and 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 2021-23, 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.

<u>Revenue Sources and Relationships</u>
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 also receives punitive damage awards and restitution payments.

Federal Grants monies received by DOJ include: 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 2021-23.

<u>Budget Environment</u>
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 2019-2021 biennium, the program received an average of 426 compensation claims per month and processed an average of 499 payments per month. Compensation payments totaled $5.8 million, down from $6.2 million during the 2017-19 biennium. 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, which is down from the 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 2021-23 legislatively adopted budget of $105.4 million is $24.9 million, or 19.1%, less than the 2019-21 legislatively approved budget and includes 52 positions (47.70 FTE).

The budget included the following adjustments:

- $22.2 million Federal Funds and three limited duration positions (2.64 FTE) for the continuation of a federal Victims of Crime Act grant.
- $6 million General Fund on a one-time basis for the Crime Victim and Survivor Services Division and for Child Abuse Intervention Centers.
- $5 million General Fund on a one-time basis for the Crime Victim and Survivor Services Division to assist victims of domestic violence and sexual assault with housing needs.
- A $4.9 million fund shift from Other Funds to General Fund and re-establishment of 19 existing permanent full-time positions (17.70 FTE) to backfill a revenue shortfall in punitive damage settlement funding
- $2 million General Fund and six permanent full-time positions (5.25 FTE) for bias crimes response by the Civil Rights Unit.
- $1.3 million General Fund on a one-time basis for the Crime Victim and Survivor Services Division to provide supplemental pass-through support to the Oregon Crime Victims Law Center.
- $960,000 General Fund and two positions (0.73 FTE) for HB 2575 to establish a program for awarding grants to law enforcement agencies and local governments to fund training for groups and agencies that interact with persons who have experienced trauma.
- $644,166 Federal Funds and one limited duration Program Analyst 3 (1.00 FTE) for a human trafficking grant.
- $303,894 Other Funds for an Appellate Advocate position (1.00 FTE).
- A $279,329 fund shift from Federal Funds to Other Funds for an existing Bias Crimes Incident Coordinator position.
- $218,003 General Fund and one permanent full-time position (0.88 FTE) for an Appellate Advocate position for the U.S. Supreme Court's Ramos v. Louisiana decision on non-unanimous jury trials.
- $120,711 General Fund and one position (0.25 FTE) for HB 2746 to develop, implement, and administer the Hope Card Program, which is for cards to persons who are protected by eligible civil restraining orders.
- $7,457 General Fund, $16,550 Other Funds, and $7,840 Federal Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division.
- $18,242 General Fund was added for an Other Funds fund shift to support position reclassifications.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $158.1 million for the 2021-23 biennium. The budget is $52.7 million, or 50%, more than the 2021-23 legislatively adopted budget. The budget includes 52 positions (47.70 FTE) and which is unchanged from the adopted budget. Major approved budget investments include:

- $15 million Other Funds expenditure limitation, on a time-time basis, for community-based violence prevention grants funded from federal ARPA monies.
- $11.3 million General Fund, on a time-time basis, for a potential revenue shortfall in the federal Victims of Crime Act grant.
- $10 million General Fund, on a time-time basis, for state-funded grants to domestic and sexual violence service.
- $2.8 million General Fund, on a time-time basis, for distribution to Court Appointed Special Advocates.
- $2 million Other Funds, on a time-time basis, for distribution to nonprofit entities to assist survivors of domestic and sexual violence and human trafficking in maintaining or acquiring housing that is funded from ARPA monies.

General Counsel Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	68,833,952	73,475,724	76,636,788	80,713,208
Total Funds	**68,833,952**	**73,475,724**	**76,636,788**	**80,713,208**
Positions	159	161	170	178
FTE	156.19	160.76	167.68	171.54

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. This work includes defending Oregon Occupational Safety and Health regulatory actions in administrative hearings.
- Government Services - Provides a wide range of general legal services and advice to state agencies, including a variety of Oregon Department of Transportation programs and initiatives.
- Tax and Finance – Advises state agencies regarding 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. Provides 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 certain administrative hearings.
- Natural Resources - Provides legal services and advice, including representation in administrative hearings, for environmental and natural resource agencies.
- Labor and Employment – Advises state agencies and semi-independent agencies and some public corporations. Provides legal advice and services, including litigation defense, on labor and employment issues, state and federal employment law, and collective bargaining agreements.
- 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 and marijuana and hemp regulation. This section is also responsible for advising the public health agencies responsible for the state's pandemic response.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from hourly billings to state agencies which pay these invoices using various revenue sources.

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 increased during 2019-21 included: COVID-19 pandemic response, wildfire response, 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 2021-23 legislatively adopted budget of $76.6 million is $7.8 million, or 11.3%, more than the 2019-21 legislatively approved budget and includes 170 positions (167.68 FTE). The budget included the following additions:

- $2.2 million Other Funds and seven permanent full-time positions (5.04 FTE) to address the increased workloads in the Labor and Employment Section, Health and Human Services Section, Business Activities Section, and the Natural Resources Section.
- $774,303 and two permanent full-time positions (2.00 FTE) in the Business Transactions Section for continued work on transportation infrastructure projects authorized in HB 2017 (2017)
- A $781,386 Other Funds reduction for transfer of two vacant permanent full-time positions (2.00 FTE) to the Trial Division for work related to state habeas corpus petitions filed due to the COVID-19 pandemic.
- $604,937 Other Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division.
- $447,784 Other Funds and one position (0.88 FTE) for Fair Housing Enforcement initiative.
- $312,554 to re-establish one limited duration position (1.00 FTE) to support a Client Agency Legal Training Manager to design and implement educational projects for the Attorney General.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $80.7 million for the 2021-23 biennium. The budget is $4.1 million, or 5.3%, more than the 2021-23 legislatively adopted budget. The budget includes 178 positions (171.54 FTE) which is eight positions (3.86 FTE) more than the legislatively adopted budget. Major investments include:

- $2.3 million Other Funds and nine permanent full-time positions (4.74 FTE) to address workload increases in the General Counsel Division.
- Transferred $447,784 Other Funds expenditure limitation and one permanent full-time positions (0.88 FTE) for the Fair Housing Enforcement initiative from the General Counsel Division to the Civil Enforcement Division.

Trial Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	40,592,053	44,311,701	48,492,276	50,595,081
Total Funds	**40,592,053**	**44,311,701**	**48,492,276**	**50,595,081**
Positions	119	117	131	135
FTE	115.14	115.89	128.45	130.49

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; 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.

<u>Revenue Sources and Relationships</u>

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).

<u>Budget Environment</u>

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.

<u>Legislatively Adopted Budget</u>

The 2021-23 legislatively adopted budget of $48.5 million is $7.9 million, or 19.5%, more than the 2019-21 legislatively approved budget and includes 131 positions (128.45 FTE). The adopted budget includes the following additions:

- $2.1 million Other Funds and eight permanent positions (7.04 FTE) for the U.S. Supreme Court's Ramos v. Louisiana cases. The revenue source for this package comes from General Fund appropriated under the Defense of Criminal Convictions
- $788,801 Other Funds and two positions (1.76 FTE) to support Interstate Bridge Replacement litigation, redistricting, and challenges to agencies under the Administrative Procedures Act
- $781,386 Other Funds for the transfer of two existing positions (2.00 FTE) from the General Counsel Division for work related to state habeas corpus petitions filed due to the COVID-19 pandemic
- $528,072 Other Funds and two permanent full-time positions (1.76 FTE) for resources to defend the state in civil lawsuits filed by adults in custody at state correctional institutions, which are related to the COVID-19 pandemic

- $358,952 Other Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $50.6 million for the 2021-23 biennium. The budget is $2.1 million, or 4.3%, more than the 2021-23 legislatively adopted budget. The budget includes 135 positions (130.49 FTE) which is four positions (2.04 FTE) more than the legislatively adopted budget. $692,052 Other Funds expenditure limitation and four permanent full-time positions (2.04 FTE) were added for legal challenges associated with wrongful conviction (SB 1584, 2022).

Defense of Criminal Convictions

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	27,770,652	34,437,737	38,393,089	38,180,433
Total Funds	**27,770,652**	**34,437,737**	**38,393,089**	**38,180,433**

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 that the trial court made a legal error that affected the conviction or sentence; (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 each biennium, these cases are very complex and time consuming. The Department is now handling over 20 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 outcomes or 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 for relief, reverses the judgement of conviction and orders either a new trial, a new sentencing hearing, 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 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. SB 1013 (2019) limited the use of capital punishment to a narrow set of circumstances (e.g., terrorist acts and the murder of children or law enforcement officer) 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 2021-23 legislatively adopted budget of $38.4 million is $10.6 million, or 38.3%, more than the 2019-21 legislatively approved budget. The adopted budget includes the following:
- $3.5 million General Fund for forecasted caseload increases.
- $1.7 million General Fund in services and supplies for the Defense of Criminal Convictions for forecasted caseload changes in the Trial Division due to the U.S. Supreme Court Ramos v. Louisiana cases.
- $702,083 General Fund for services and supplies for the Defense of Criminal Convictions for forecasted caseload changes in the Appellate Division due to the U.S. Supreme Court Ramos v. Louisiana cases.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for the Defense of Criminal Convictions totals $38.2 million for the 2021-23 biennium. The budget is $0.2 million, or 0.6%, less than the 2021-23 legislatively adopted budget due to a $212,656 General Fund reduction to reconcile the budget with the Department's 2021-23 close-of-session forecasted caseload (June 2021).

Division of Child Support

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	37,299,064	40,836,772	50,422,180	51,412,475
Other Funds	28,319,473	28,866,658	22,594,143	22,737,290
Federal Funds	121,864,625	130,869,412	134,781,696	136,980,490
Total Funds	**187,483,162**	**200,572,842**	**207,798,019**	**211,130,255**
Positions	568	567	567	555
FTE	557.45	564.48	564.48	552.48

<u>Program Description</u>
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, establish, enforce, and modify child and medical support obligations, and receive and distribute support payments from absent parents. The Oregon Child Support Program provides these services automatically for families that are requesting, are receiving, or have received public assistance from the Oregon Department of Human Services (ODHS); if the child is in the care of ODHS's child welfare program or, until December 31, 2021, the Oregon Youth Authority; 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, 21 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, Deschutes, Douglas, Gilliam, Hood River, Jefferson, Josephine, Klamath, Lake, Linn, Sherman, Tillamook, Wasco, and Wheeler County District Attorneys have chosen not to provide child support services rather than contract with DOJ.

The division is organized into the following sections: field services, director's office, business services and technical services. The division's mission is to locate parents and assets/collect financial information, establish paternity, establish child and medical support orders, ensure compliance with orders and collect payments, modify and adjust child support orders, manage accounting and recordkeeping, and receive and distribute collections. Compliance and collection tools include income withholding, 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 recoveries for the Temporary Assistance to Needy Families (TANF) program, the Oregon Health Plan, and, until December 31, 2021, the Oregon Youth Authority. A portion of Other Funds are incentive funds received from the federal program.

There is a federally mandated annual fee when the family has not received TANF benefits. The $35 fee 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.

Budget Environment

The Oregon Child Support Program serves roughly 159,000 families per year. The District Attorney offices have provided services to approximately 24% of these families; the other 76% represents families with open and former public assistance cases and private cases. Approximately 13.8% of the DOJ caseload is receiving, or has recently received, an ODHS payment or service. Total collections continue to grow, in part, due to economic factors like inflation. The ratio of the program's costs to collections is as follows: for every dollar spent, $3.44 was collected in 2016, $3.88 in 2017, $3.60 in 2018, $3.72 in 2019, and $4.14 in 2020. The average number of cases handled by DCS per case manager FTE during federal fiscal year 2016 was 489 cases, 451 cases in 2017, 403 cases in 2018, 433 cases in 2019, and 416 cases in 2020.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $207.8 million is $20.3 million, or 10.8%, more than the 2019-21 legislatively approved budget and includes 567 positions (564.48 FTE). The adopted budget included the following additions:

- $5.3 million General Fund and $10.4 million Federal Funds fund shift to continue 66 existing permanent positions (65.39 FTE) and to account for an Other Funds revenue shortfall in Temporary Assistance for Needy Families recoveries.
- $2.5 million General Fund, $503,909 Other Funds, and $1.4 million Federal Funds to reconcile the Intra-agency cost-allocation charges for operating services provided by the Administration Division. Additionally, this support will allow the Division to fill approximately 30 positions previously held vacant to fund the Division's deficit.
- $1.6 million General Fund and $3 million Federal Funds for supplemental implementation funding for the Child Support Enforcement Automated System.

- $403,863 General Fund and $783,969 Federal Funds in the Attorney General Expenditure line-item.
- $300,000 General Fund and $389,630 Federal Funds to fund the Department of Administrative Services - State Data Center charges for the Child Support Enforcement Automated System (CSEAS) as proposed in the Governor's budget. The movement of CSEAS from a private data center to the State Data Center has been a long-sought objective of the Legislature.
- $151,739 General Fund, $72,571 Other Funds, and $453,427 Federal Fund reductions for the closure of one Portland Division of Child Support office.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $211.1 million for the 2021-23 biennium. The budget is $3.3 million, or 1.6%, more than the 2021-23 legislatively adopted budget. The budget includes 555 positions (552.48 FTE) which is 12 positions (12.00 FTE) fewer than the legislatively adopted budget. Approved budget adjustments include decreases of $213,517 General Fund, $37,146 Other Funds, $486,565 Federal Funds, and the abolishment of 12 permanent full-time positions (12.00 FTE). These actions were taken to fund the procurement of a child support receipting and payment collection service for physically deposited child support payments.

Child Support Enforcement Automated System

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,008,951	--	--	--
Other Funds	5,950,601	--	--	--
Federal Funds	14,418,514	--	--	--
Total Funds	**22,378,066**	**--**	**--**	**--**
Positions	27	--	--	--
FTE	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 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 budget for the CSEAS has been phased-out due to the completion of the project and ongoing operations and maintenance costs for CSEAS are budgeted under the Division of Child Support.

Legislatively Approved Budget Update

The legislatively approved budget for the division is unchanged from the legislatively adopted budget; however, the Legislature approved a $5.1 million special purpose General Fund appropriation to the Emergency Board for allocation to the Department of Justice, Division of Child Support, for CSEAS. This funding is intended to address a number of issues with the Child Support Enforcement Automated System including the need to update or "refactor" existing software code, a U.S. Internal Revenue Service critical finding related to system security, options for re-hosting CSEAS' data warehouse environment, and concerns with ongoing operational staff support of the application. Given the implications of these issues to the state's child support enforcement program and benefit recipients, the Legislature set-aside $5.1 million General Fund in a special purpose appropriation as a contingency to meet any potential state matching funds requirement.

Debt Service and Related Costs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	15,650,370	8,375,250	8,375,250	8,323,075
Other Funds	--	--	--	157,430
Total Funds	**15,650,370**	**8,375,250**	**8,375,250**	**8,480,505**

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 CSEAS project. The purpose of the Debt Service program is to segregate Debt Service and financing costs from the agency's operating budget.

Revenue Sources and Relationships

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

Budget Environment

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

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $8.4 million is $7.3 million, or 46.5%, less than the 2019-21 legislatively approved budget. The General Fund budget is comprised of Debt Service payments for previously issued Article XI-Q bonds.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $8.5 million for the 2021-23 biennium. The budget is $105,255, or 1.3%, more than the 2021-23 legislatively adopted budget. Adjustments included a $52,175 General Fund reduction and a $157,430 Other Funds increase for technical adjustments to debt service payments.

MILITARY DEPARTMENT

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	38,994,473	35,667,253	76,745,748	47,887,886
Other Funds	154,966,077	113,214,952	183,066,959	109,234,352
Other Funds (NL)	3,842,468	--	--	--
Federal Funds	1,233,670,832	307,599,365	1,171,794,136	472,064,408
Total Funds	**1,431,473,850**	**456,481,570**	**1,431,606,843**	**629,186,646**
Positions	525	515	579	488
FTE	463.00	466.30	530.30	484.96

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 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 and two regional training sites.

Revenue Sources and Relationships

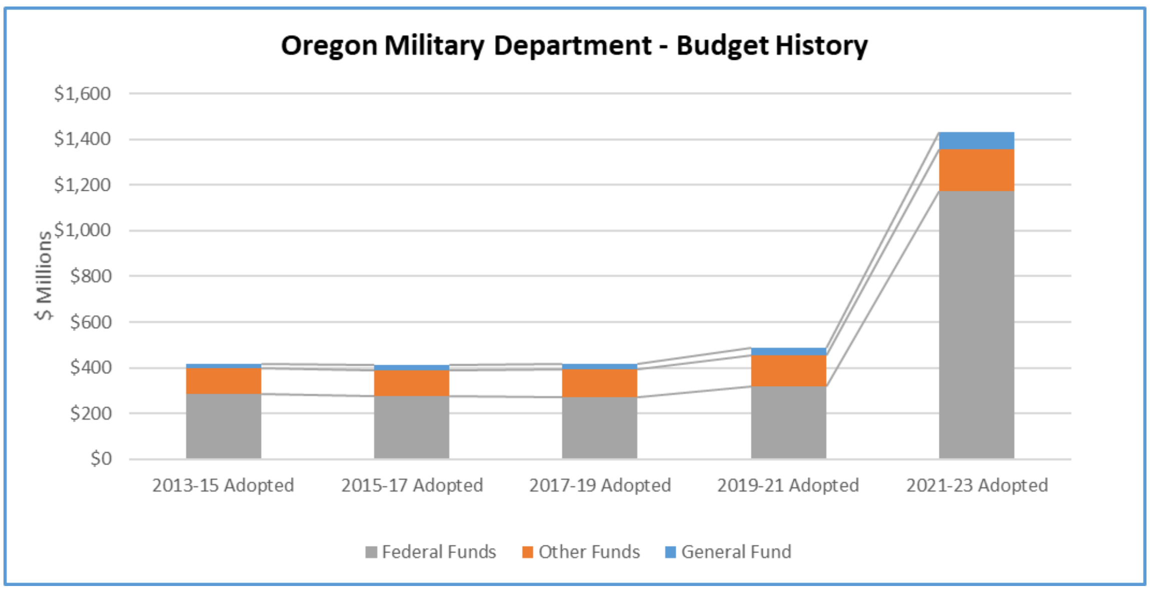
The Department receives most of its funding ($1.2 billion in 2021-23) from the federal government. These funds are used to finance each of the Department's four major program areas and are based on federal/state cooperative agreements and federal grants. Also included are Federal Funds for major construction projects.

The Oregon National Guard and the Oregon Air National Guard receive direct federal support ($727.8 million in 2021-23) for funding federal employees (2,032 FTE), guard member salaries and wages, and equipment. Combined, federal and state expenditures for the National Guard in Oregon total more than $2 billion over the course of the 2021-23 biennium. General Fund supports wages and salaries of state employees, debt service, and state matching funds for various federal/state agreements.

The level of federal support in the state budget varies by program, type of facility, type of construction project, and, increasingly, the nature of the state's federal disaster declarations. 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.

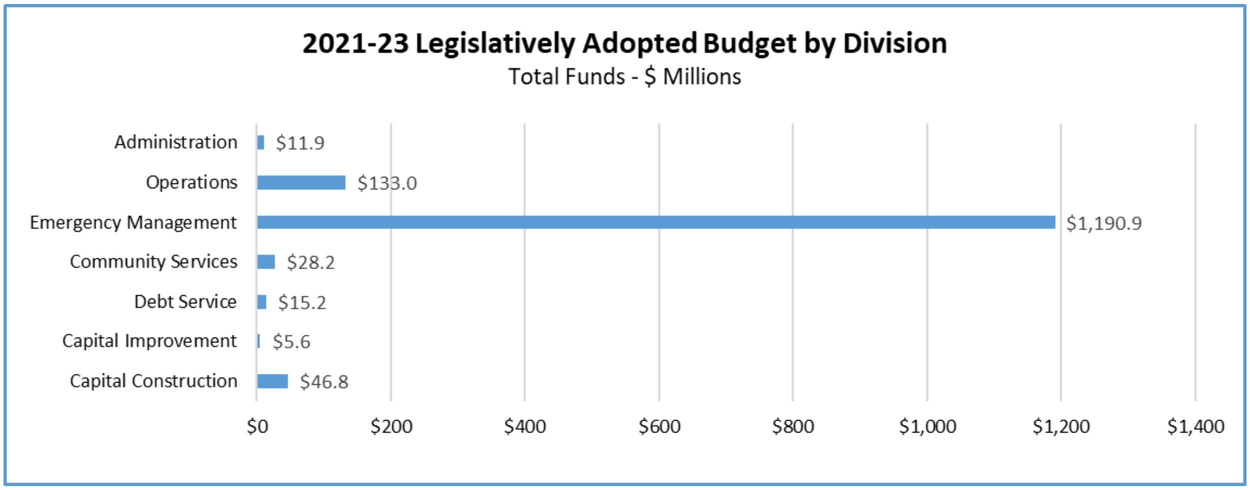
Other Funds revenue received by the Department totals $196.2 million. Approximately $153.3 million is related to 9-1-1 emergency telecommunications surcharge revenues. The Department also generates facility rental fees and miscellaneous sales revenue. Rental revenues earned from federally supported facilities 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 $2.8 million in 2021-23. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. The Oregon Youth Challenge Program receives revenue from the Bend-LaPine School District totaling $3.9 million, as well as approximately $800,000 National School Breakfast and Lunch transfers from the Oregon Department of Education. Lastly, the budget includes Other Funds revenue from bonds issued for Capital Construction projects.

The following display shows the Department's budget history from 2013-15 through 2021-23.



Legislatively Adopted Budget

The Military Department's 2021-23 total funds budget is $1.4 billion, which - due to an unprecedented amount of federal disaster funding received during the 2019-21 biennium - is both exactly the same level as the 2019-21 legislatively approved budget and 213.6% greater than the 2021-23 current service level. General Fund is $76.7 million, an increase of 96.8% from the 2019-21 budget level. The budget includes a total of 579 positions (530.30 FTE), 62 more than in 2019-21. The following display shows the 2021-23 adopted budget by agency division.



Significant changes in this budget include:

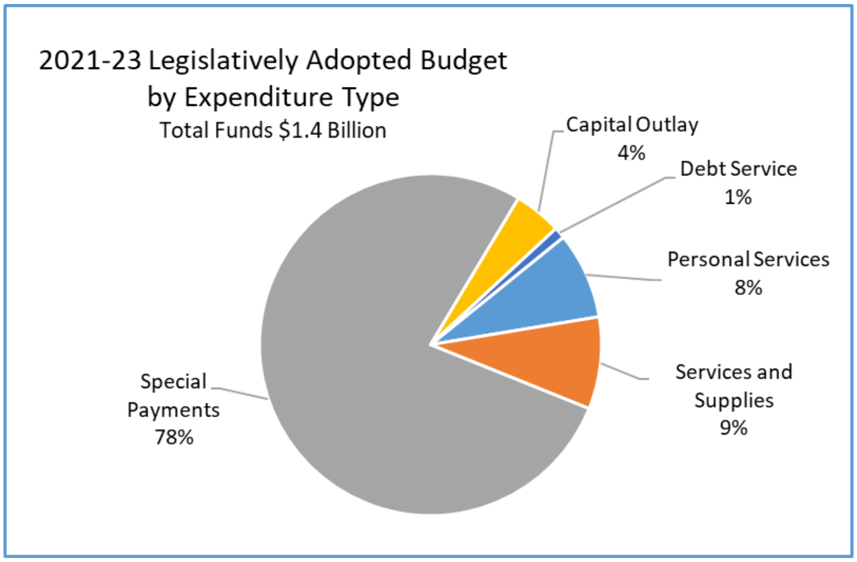
- $15 million of Article XI-Q bond proceeds and six-year capital construction expenditure limitation for two armory service life extension projects in Ashland and Corvallis and one new readiness center in Washington County and $2.1 million General Fund for debt service payments on the bonds issued to pay for these three projects.
- $31.8 million Federal Funds and six-year capital construction expenditure limitation for two projects at Camp Umatilla and for the new readiness center.
- $6.7 million General Fund and $6.7 million Federal Funds expenditure limitation for deferred maintenance projects at Military Department facilities throughout the state.
- $0.8 million General Fund and $0.6 million Other Funds expenditure limitation for the recently-expanded Oregon Youth Challenge Program.

The Office of Emergency Management is to be created as a separate state agency on July 1, 2022 as required by HB 2927. In addition to receiving $4.4 million General Fund, $5 million Other Funds expenditure limitation, and 13 positions (13.00) in HB 2927 to establish the new department, the Office of Emergency Management received additional resources to bolster the state's emergency preparedness and response functions, including:

- $820 million Federal Funds expenditure limitation to continue to pass through federal disaster relief funding to state agencies, tribal and local governments, and individuals.
- $10 million in General Obligation bond proceeds to recapitalize the State Preparedness and Incident Response Equipment (SPIRE) Fund, and $10 million Other Funds expenditure limitation to make grants from the fund.
- $20 million General Fund to provide state match for the Federal Emergency Management Agency's (FEMA) Hazard Mitigation Grant Program.
- $3.7 million General Fund, $4.9 million Federal Funds expenditure limitation, and 40 new positions (40.00 FTE) to staff mitigation and recovery functions and other emergency management requirements in the new department.
- $40 million Other Funds expenditure limitation and a fund shift of $1.3 million from Other Funds to General Fund in the 9-1-1 Program, to pass through increased Emergency Communications Tax revenues to public safety answering points and to properly align 9-1-1 Program funding with staff responsibilities.
- $2.7 million on a one-time basis for costs incurred during the 2020 wildfire season.

The following display depicts the 2021-23 legislatively adopted budget by expenditure type.

The Department's budget is composed of $117.6 million personal services, $124.8 million services and supplies, $64.4 million capital outlay, $1.1 billion special payments, and $15.2 million debt service. Special Payments, the largest budget category by far, are primarily budgeted 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.



Legislatively Approved Budget Update

The Military Department's 2021-23 legislatively approved budget is $629.2 million total funds, which is a 56% decrease from the 2021-23 legislatively adopted budget. The reductions, including 91 positions (45.34 FTE), are a result of the establishment of the Department of Emergency Management as an independent agency beginning July 1, 2022. The net reductions to the Military Department's budget include $28.9 million General Fund, $73.8 million Other Funds, and $699.7 million Federal Funds.

Administration

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	5,489,498	7,590,218	8,495,896	9,242,709
Other Funds	2,722,522	2,928,813	2,903,932	3,212,270
Federal Funds	--	--	517,673	30,450
Total Funds	**8,212,020**	**10,519,031**	**11,917,501**	**12,485,429**
Positions	25	26	34	34
FTE	23.76	25.50	33.50	33.50

Program Description

The Administration program consists of the Command Group, Financial Administration, the State Personnel Office, and Public Affairs. The program supports 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 $57,000 in Oregon individual tax check-off deduction revenue associated with the Emergency Financial Assistance Program.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $11.9 million is 45.1% greater than the 2019-21 legislatively approved budget and includes 34 positions (33.50 FTE). Changes to the Administration budget are related to the Office of Emergency Management and include the addition of $360,621 General Fund, $517,673 Federal Funds expenditure limitation, and five positions (5.00 FTE) to support OEM program expansion; and $1,006,057 plus three positions (3.00 FTE) for making necessary administrative adjustments when OEM becomes a separate state agency on July 1, 2022.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Administration is $12.5 million total funds, an increase of $1.2 million from the legislatively adopted budget. The overall increase is the result of technical adjustments for IT-related costs and the funding of accounting positions as well as increases for previously approved compensation plan changes.

Operations

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	8,197,935	8,700,661	15,268,825	15,393,020
Other Funds	5,511,546	5,545,822	5,917,732	6,055,441
Federal Funds	99,455,504	104,831,569	111,830,559	113,885,741
Total Funds	**113,164,985**	**119,078,052**	**133,017,116**	**135,334,202**
Positions	362	359	365	365
FTE	313.80	310,80	316.80	316.80

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 of 10-25%, depending on the program.

Revenue Sources and Relationships
The program area 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 $2.8 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 484 buildings totaling 3.4 million square feet spread across the state in 27 counties. The largest of these facilities are fifteen training/logistical sites, two air bases, and 37 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, armories in particular, makes them inefficient and expensive to operate and maintain. The Department's strategy for addressing the worst of its facilities deferred maintenance is to replace them with new buildings. This strategy has proven to be successful in reducing the percentage of agency facilities in poor condition. The Department's 2019 Installation Status Report's Facility Condition Index asserts that 61% of its facilities statewide are in compliance with National Guard Bureau/Department of Army standards and are in overall fair or good condition, 29% do not fully meet standards and are in poor condition, and the remaining 10% are substandard and/or in very poor condition. Facility compliance with federal standards has improved in recent biennia as resources have been made available for repairs, maintenance, and improvements, and as federal construction funds have flowed to Oregon for major projects at Camp Umatilla and Camp Rilea.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $133 million is 17.5% more than the 2019-21 legislatively approved budget and includes 365 positions (316.80 FTE). The legislatively adopted budget includes the following changes:

- $6.7 million General Fund and $6.7 million Federal Funds expenditure limitation to address deferred maintenance projects in Military Department facilities throughout the state.
- $108,291 Other Funds expenditure limitation, $957,089 Federal Funds expenditure limitation, and six positions (6.00 FTE) to address increasing federal program management and support responsibilities at the Camp Umatilla and Camp Rilea training centers and to increase the agency's wildland fire protection capacity.
- The addition of $274,160 Other Funds expenditure limitation to pay the cost of issuance for $14,990,840 of Article XI-Q general obligation bonds authorized for capital projects (see Capital Construction section, below.)

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Operations is $135.3 million total funds, an increase of $1.6 million from the legislatively adopted budget. The overall increase is the result of adjustments for previously approved compensation plan changes.

Office of Emergency Management

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	12,313,917	5,730,467	36,692,980	8,540,816
Other Funds	114,914,774	100,180,730	148,903,641	74,495,721
Federal Funds	1,048,670,929	180,894,262	1,005,322,529	303,502,495
Total Funds	**1,175,899,620**	**286,805,459**	**1,190,919,150**	**386,539,032**
Positions	52	44	91	--
FTE	48.62	44.00	91.00	45.66

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.

<u>Revenue Sources and Relationships</u>

The major funding source for OEM 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 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. Federal Funds expenditure limitation for FEMA disaster recovery funding assumed in the 2021-23 legislatively adopted budget ($1 billion) is significantly more than either was assumed in the 2019-21 legislatively adopted budget or received during the 2019-21 biennium due to the number of federal disaster declarations made in 2020 and 2021.

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 tax for any phone line capable of accessing 9-1-1 services, excepting federal, state, and local governments. 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 of the tax 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 9-1-1 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.

<u>Organization Changes</u>

HB 2927 (2021) established the Office of Emergency Management as an independent state agency effective July 1, 2022. The bill provides $4.4 million General Fund and thirteen positions (13.00 FTE) to staff the new department, to backfill administrative functions in the Military Department, and to pay for rent, information technology, and business services provided to the new agency by the Department of Administrative Services. The measure also provides $5 million Other Funds expenditure limitation to OMD for use in the event of Oregon National Guard State Active Duty mobilizations. The unexpended balances of amounts authorized to be spent by OMD for the Office of Emergency Management for the 2021-23 biennium are to be transferred to the new Oregon Department of Emergency Management as of July 1, 2022.

<u>Legislatively Adopted Budget</u>

The 2021-23 legislatively adopted budget of $1.2 billion is 1.3% higher than the 2019-21 legislatively approved budget and includes 91 positions (91.00 FTE), more than twice as many positions as in 2019-21. The OEM budget includes the following significant changes:

- $3,341,187 General Fund, $4,422,518 Federal Funds expenditure limitation, and 35 positions (35.00 FTE) to maintain and enhance recovery efforts from federally-declared disasters in Oregon and to enhance the state's disaster-planning capabilities.

- $1,345,752 General Fund, $2 Federal Funds expenditure limitation, and a reduction of $1,349,509 Other Funds expenditure limitation for a fund shift of eight positions from Other Funds Emergency Communications Tax revenue to the General Fund, necessitated by the reduction in the allowable administrative percentage of tax collections from 4% to 2.4% made by HB 2449 (2019).
- An increase of $40 million Other Funds expenditure limitation to allow the 9-1-1 program to pass through increased Emergency Communications Tax revenues to public safety answering points and to make deposits into the Enhanced 9-1-1 Subaccount for network and database equipment costs.
- $2.7 million General Fund on a one-time basis for the state's share of the FEMA-reimbursable cost of urban search and rescue teams deployed during the Labor Day wildfires in 2020 and $20 million General Fund to provide state matching payments for the FEMA Hazard Mitigation Grant program.
- $820 million Federal Funds expenditure limitation in order for the agency to process federal disaster reimbursement payments as quickly as possible.
- $10 million Other Funds expenditure limitation for the State Preparedness and Incident Response Equipment (SPIRE) grant program, recapitalized with the proceeds from the sale of Article XI-Q bonds. $210,000 Other Funds expenditure limitation was provided for the cost of bond issuance.
- $700,003 General Fund and two positions (2.00 FTE) to prepare for or respond to wildfire emergencies on an area-wide or statewide basis. This funding was provided in SB 762 (2021).
- $3,431,834 General Fund and ten positions (10.00 FTE) to establish the Office of Emergency Management as a stand-alone agency effective July 1, 2022.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Office of Emergency Management is $386.5 million total funds, which is an $804 million total funds reduction from the legislatively adopted budget. This reduction is for the establishment of the Department of Emergency Management as an independent agency beginning July 1, 2022 and includes 91 positions (45.34 FTE) that will become part of the new agency. Additional adjustments to the OEM budget include:

- Technical adjustments for IT costs that were budgeted within OEM but should remain part of OMD after the establishment of the new agency
- $20 million General Fund reduction related to the Hazard Mitigation Grant Program. These funds will be deposited into the Local Disaster Assistance Loan and Grant Account for the new agency to utilize beyond 2021-23.
- $227,085 General Fund and a position related to recommendations for the establishment of an emergency stockpile found in HB 4068 (2022). The position will ultimately transfer to the new agency.
- Adjustments for previously approved compensation plan changes.

Community Support

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	1,675,695	456,816	1,217,877	1,217,876
Other Funds	9,599,319	4,458,677	10,049,904	10,179,170
Federal Funds	15,276,033	16,519,434	16,969,275	17,491,622
Total Funds	**26,551,047**	**21,434,927**	**28,237,056**	**28,888,668**
Positions	86	86	89	89
FTE	80.82	86.00	89.00	89.00

Program Description

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

- The Oregon Youth Challenge Program (OYCP) is 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 students at risk of dropping out of high school. 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. The program's recently-completed facility expansion will allow 240 students to attend each of the two classes offered each year.
- The *Science and Technology Academy Reinforcing Basic Aviation and Space Exploration* (STARBASE) program 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, at Camp Rilea in Warrenton, and at Camp Umatilla in Hermiston.
- 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. Historically, the largest mobilization of National Guard personnel and assets occurred in 2020, when the Governor mobilized Guard members for crowd control missions in support of the City of Portland and the Oregon State Police, for wildfire response, and for response to the COVID-19 pandemic. The Office of Emergency Management is the coordinating entity for Department resources used for statewide emergencies.

Until the 2021-23 legislatively adopted budget, the Emergency Operations budget structure was a "placeholder," used only in the event of reimbursable emergency operations having taken place. The Department's legislatively adopted budget did not normally 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 often the Department of Forestry. HB 2927 (2021) added $5 million Other Funds expenditure limitation to the Community Services program for Emergency Operations.

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 in large part through Average Daily Membership 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 was complete as of January 2020, but COVID-19 precautions have kept the facility from operating at its new full capacity to date. The STARBASE program added a new site at Camp Rilea in 2019, will add an additional new site at Camp Umatilla in 2021, and is estimated to serve more than 6,200 students during the 2021-23 biennium.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $28.2 million is 6.4% higher than the 2019-21 legislatively approved budget and includes 89 positions (89.00 FTE).

The Community Support budget incorporates the following changes:

- An increase of $766,936 General Fund and $623,851 Other Funds expenditure limitation for the Youth Challenge program, for teaching contract expenses, and additional supplies and food costs associated with the student population increase from 312 to 480 cadets per year. An additional $19,321 Other Funds expenditure limitation and $57,958 Federal Funds expenditure limitation will support position reclassifications in the Youth Challenge program.

- $544,299 Federal Funds expenditure limitation and three positions (3.00 FTE) to establish three new positions and reclassify three positions in the STARBASE program. The three new positions will provide instruction at the new STARBASE site at Camp Umatilla, and the three reclassified positions will serve as supervisors at each of the other three sites n Portland, Klamath Falls, and Warrenton.
- $5 million Other Funds expenditure limitation was authorized in HB 2927 to provide expenditure authority to the Military Department in the event of National Guard Bureau State Active Duty mobilizations.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Community Support includes a $613,668 increase from the adopted budget for previously approved compensation plan changes.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	11,317,429	13,189,091	15,070,170	13,493,465
Other Funds	290,916	100,910	100,910	100,910
Total Funds	**11,608,345**	**13,290,001**	**15,171,080**	**13,594,375**

Program Description

The Debt Service Program provides funding for principal and interest costs associated with the issuance of Article XI-Q bonds 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 2021-23 legislatively adopted budget of $15.2 million is 30.7% more than the 2019-21 legislatively approved budget. General Fund for debt service increased by $3.6 million over 2019-21 as a result of both revised debt service estimates for existing debt and new debt service requirements on planned issuance of $14,990,840 of Article XI-Q bonds during the 2021-23 biennium.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for debt service is $13.6 million total funds, which is a $1.6 million decrease from the legislatively adopted budget due to the transfer of debt service associated with bonds issued for the SPIRE program that will transfer to the newly established Department of Emergency Management.

Capital Improvements

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	--
Other Funds	--	--	200,000	200,000
Federal Funds	5,133,366	5,354,100	5,354,100	5,354,100
Total Funds	**5,133,366**	**5,354,100**	**5,554,100**	**5,554,100**

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 $250 million on 3.4 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 2021-23 legislatively adopted budget of $5.5 million is 8.2% more than the 2019-21 legislatively approved budget. $200,000 Other Funds expenditure limitation is provided on a one-time basis to allow the Oregon Military Museum to spend donated funds on a new exhibit on Oregon National Guard activities during the Korean War period.

Legislatively Approved Budget Update

There were no changes to the 2021-23 legislatively approved budget for the Capital Improvement program.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	21,927,000	--	14,990,840	14,990,840
Federal Funds	65,135,000	--	31,800,000	31,800,000
Total Funds	**87,062,000**	**--**	**46,790,840**	**46,790,840**

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 73 major construction projects that have brought more than $300 million in federal support to Oregon. The Department currently has 20 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. A budget note in HB 5006 (2021) directs the Military Department to report to the Legislature on its ten-year capital construction plan prior to the February 2022 legislative session.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget of $46.8 million is about half the 2019-21 legislatively approved budget level due to removal of a significant amount of federal funding that was made available in 2019-21 for capital construction projects at Camp Umatilla and the Boardman Tactical Unmanned Aerial Vehicle facility.

Article XI-Q bond financing for the following projects is included in the budget:
- $5,373,235 for additions and improvements to the Ashland Armory, including seismic upgrades.
- $4,317,605 for additions to and alterations of the Corvallis Armory, including seismic upgrades.
- $5,300,000 for the construction of a new National Guard Readiness Center in Washington County.

Federal Funds finance the following projects:
- $8,000,000 for construction of barracks facilities at Camp Umatilla.
- $1,100,000 for construction of a guard shack at Camp Umatilla. This project includes an improved entry point for commercial activities, a new gate, an identification check station building, roadway improvements, a truck inspection lane, and a barricade system.
- $22,700,000 for a new National Guard Bureau Readiness Center in Washington County. This new facility will replace the Hillsboro Armory, and will provide improved space for the training, administrative, and logistical needs of the Oregon Army National Guard.

<u>Legislatively Approved Budget Update</u>
There are no changes to the 2021-23 legislatively approved budget for the Capital Construction program.

BOARD OF PAROLE AND POST-PRISON SUPERVISION

Analyst: Walker

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Funds	8,669,440	10,182,509	10,635,926	11,629,057
Other Funds	24,163	12,184	12,184	12,184
Total Funds	**$8,693,603**	**$10,194,693**	**$10,648,110**	**$11,641,241**
Positions	25	25	27	30
FTE	25.00	25.00	27.00	28.50

Overview

The Board of Parole and Post-Prison Supervision (Board) works within the criminal justice system to achieve the following: protect the public; reduce the risk of repeat criminal behavior (through decisions concerning incarceration and evidence-based community supervision and intervention); and ensure legal integrity. Partnerships with the Department of Corrections and local supervisory authorities, as well as victim involvement and stakeholder involvement, inform its release and post-prison supervision decisions.

Revenue Sources and Relationships

The agency is principally funded with General Fund support. Small miscellaneous Other Fund revenue sources include the sale of hearing tapes to the public and sales of publications.

Budget Environment

In 2019, the Board moved from the Dome Building in Salem and consolidated operations in the Salem Industrial Park due to the Department of Corrections (DOC) asking the Board to move to allow for more DOC headquarters staff. When the Board was occupying the Dome Building DOC did not charge them rent and also provided free accounting, IT, and human resources support. Due to this move the budget has increased facility and DAS support charges that are included in the Legislatively Approved budget. The Board continues to lag in completing Static 99 reviews and was under resourced in this area.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is a 22.5% increase from the 2019-21 legislatively approved budget and includes the following adjustments:

- Added two Assessment Specialist 2 (2.00 FTE) positions to augment the Static99 Sex Offender Reviews.
- Reclassified four existing positions.
- Increased facilities management expenditures to reflect increased costs associated with moving out of the Dome Building.
- Increases State Government Service Charges associated with the transfer of services previously provided by the Department of Corrections and now provided by the Department of Administrative Services.

Legislatively Approved Budget

The 2021-23 legislatively approved budget increased the agency's budget by 9.3% over the 2021-23 legislatively adopted budget. The approved budget appropriated $993,131 General Fund and three positions (1.50 FTE) that includes $74,000 General Fund for the agency to find a vendor solution for their electronic records management system and support the cost of moving paper records between offices. $115,971 General Fund to establish a full-time permanent Information Systems Specialist 7 position (0.50 FTE). $537,464 General Fund and two limited duration positions (1.00 FTE) were added to help cover additional hearings workload due to an increase in commutations and $265,696 General Fund was added for previously approved compensation plan adjustments.

DEPARTMENT OF STATE POLICE

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	288,427,648	351,560,275	491,282,855	520,359,047
Lottery Funds	10,362,821	11,069,398	11,068,651	11,317,795
Other Funds	246,014,928	177,896,176	304,853,996	306,746,354
Federal Funds	13,770,684	13,203,525	13,774,908	16,833,246
Total Funds	**558,576,081**	**553,729,374**	**820,980,410**	**855,256,442**
Positions	1,427	1,352	1,482	1,502
FTE	1,387.50	1,351.00	1,462.14	1,467.89

Overview

The Oregon 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 2021-23 legislatively adopted total funds budget is $821 million, with $491.3 million General Fund, $304.9 million Other Funds, $11.1 million Lottery Funds, $13.8 million Federal Funds, and 1,482 positions (1,462.14 FTE). General Fund support increased by 70.3%, and the total funds budget increased by 47% over the 2019-21 legislatively approved budget. The Legislature made significant changes to OSP's General Fund budget.

General Fund investments included:

- $5.8 million and 11 positions (10.04 FTE) for an agency-wide Police Accountability and Wellness package.
- $3.2 million and 16 positions (14.66 FTE) to support the Office of the Chief Medical Examiner.
- $5 million and 18 positions (11.25 FTE) for new troopers and associated equipment and vehicles.
- $1.9 million and 7 positions (6.16 FTE) for a new Digital Forensics Unit, for sworn support on southern Oregon drug interdiction task forces, and for administrative positions in the Finance and Facilities programs.
- $2.8 million to complete Phase 6 of the LEDS 20/20 information technology project.

Fund shifts and backfill included:

- $4,183,520 General Fund was added to support thirteen positions (13.00 FTE) needed to backfill the loss of Other Funds revenue due to Oregon State University canceling their contract with OSP for police services on campus.
- $29,197,200 General Fund to backfill Marijuana Tax revenue lost due to provisions of Ballot Measure 110 (2020) which redirected that revenue away from OSP uses.
- A reduction of $13,404,580 General Fund on a one-time basis and an increase in Other Funds expenditure limitation in the same amount to allow the agency to use reimbursements from FEMA for wildfire-related expenditures.

SB 762 made a significant investment in the Office of the State Fire Marshal, providing a total of $100.5 million General Fund and 56 positions (49.73 FTE) to staff and fund community risk reduction programs and firefighting activities statewide, to capitalize the new Community Risk Reduction Fund, and to modernize and improve the Oregon Fire Mutual Aid system. $25 million Other Funds expenditure limitation added for grants from the Community Risk Reduction Fund.

Other significant investments in the State Police budget included:

- $111.6 million of Article XI-Q bond proceeds and six year capital construction expenditure limitation to remodel and expand the Central Point Office, build a new forensic laboratory and medical examiner office in Springfield, and build a new Patrol Area Command office in Springfield. $1.4 million of this amount pays the cost of bond issuance. $2.7 million General Fund was provided for debt service payments in the 2021-23 biennium.
- $8.9 million Other Funds from the American Rescue Plan Act Coronavirus State Fiscal Recovery (ARPA) Fund for vehicles and forensic laboratory equipment and for the non-bondable costs of capital construction projects.
- $2.4 million Other Funds expenditure limitation on a one-time basis and 17 limited-duration positions (14.96 FTE) to address a backlog of firearms background checks.

Several budget actions affect the entire agency and are not discussed separately in the individual narratives below. These actions were:

- An agency-wide reallocation of rent expense resulting in a net reduction of $1.1 million Other Funds expenditure limitation and $246,311 Federal Funds expenditure limitation.
- Approval of sixteen position reclassifications approved by the Department of Administrative Services' Chief Human Resources Office for no net budget change in 2021-23.
- A total of $4.6 million Other Funds expenditure limitation (ARPA funds) on a one-time basis to replace 214 vehicles, purchase 27 additional vehicles, and to pay for 62 vehicles ordered but not received in the 2019-21 biennium.

<u>Legislatively Approved Budget Update</u>

The 2021-23 legislatively approved total funds budget for the Department of State Police is $855 million, with $520.4 million General Fund, $306.7 million Other Funds, $11.3 million Lottery Funds, $16.8 million Federal Funds, and 1,502 positions (1,467.89 FTE). General Fund increased by 5.9% and the total funds budget is 4.2% higher than the 2021-23 legislatively adopted budget. The budget includes 20 positions (5.75 FTE), more than the legislatively adopted budget, including 19 positions for the preparation of establishing the Office of the State Fire Marshal as an independent state agency.

Major investments in the approved budget include:

- $11.3 million General Fund for one-time 2021 fire costs.
- $2.6 million one-time General Fund support for the Firearms Instant Check System.
- $1.8 million General Fund for the positions and associated costs for the establishment of the Department of the State Fire Marshal.
- $1.1 million General Fund for the one-time purchase of wildland firefighting equipment for Estacada Rural Fire Protection District.
- $112,291 General Fund for the establishment of a Tribal Relations Liaison position.
- $3 million Federal Funds expenditure limitation on a one-time basis for the equitable sharing program.

Patrol Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	122,476,646	185,522,086	180,042,637	184,858,183
Other Funds	75,937,936	20,773,996	33,709,721	33,709,721
Federal Funds	404,687	428,633	423,937	423,858
Total Funds	**198,819,269**	**206,754,715**	**214,176,295**	**218,991,762**
Positions	543	511	530	530
FTE	534.25	510.50	522.75	522.75

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 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 leading cause of death for people between the ages of 5-24 years. 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

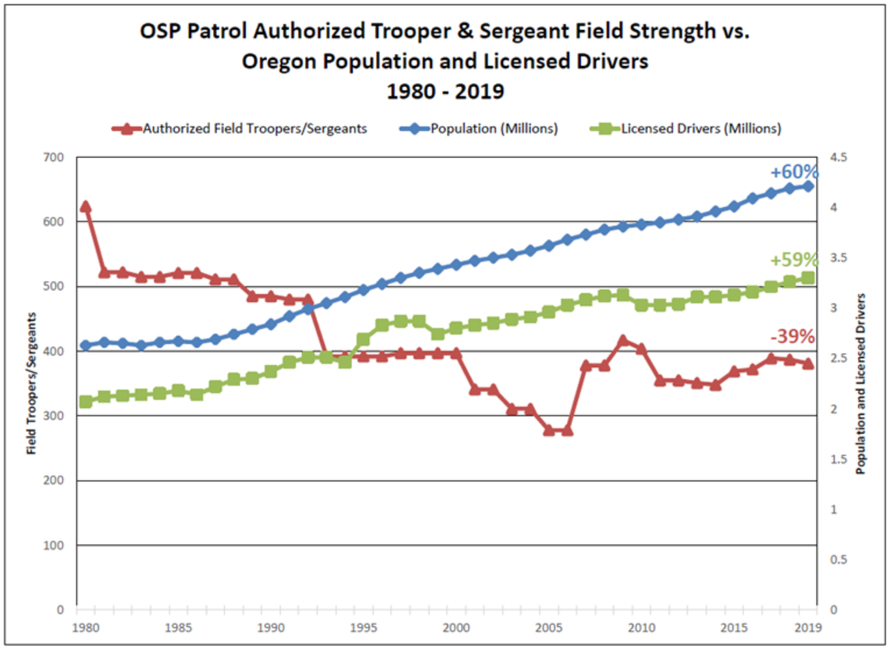
The majority (84.1%) of the Patrol Division budget is funded by the General Fund. Other Funds revenues totaling $33.7 million are received from various other entities, and include:

- $8.9 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. $3.3 million of this amount supports the Ignition Interlock Device program, transferred to OSP from ODOT in 2019 per HB 2638 (2017).
- $10.2 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.
- $0.8 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.
- One-time revenue changes included $13.4 million of FEMA reimbursement revenues from the 2020 wildfire season, with a corresponding one-time reduction of $13.4 million General Fund; and $3.8 million American Rescue Plan Act (ARPA) funds added for vehicle purchases.

Budget Environment

The Patrol Division's major cost drivers are personnel costs, fuel, equipment, patrol vehicles, vehicle maintenance, and facilities. Despite efficiencies resulting from technology improvements including computer-aided dispatch, mobile computers in patrol vehicles, and electronic citations and crash reporting, 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. Oregon is ranked 49th in the number of troopers per capita compared with all other states. 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. Due to the limited number of available troopers, recent years have seen approximately 4.8% of calls for service go unanswered, with an additional 5.2% transferred to another police agency.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for the Patrol Division of $214.2 million total funds is 7.7% greater than the 2019-21 legislatively approved budget. The General Fund portion of the budget ($180 million) is 47% higher than 2019-21. This General Fund increase is due primarily to the replacement of $56 million General Fund support with $56 million in federal Coronavirus Relief Fund (CRF) monies during the 2019-21 biennium.



Additional budget increases included:

- $1.2 million General Fund for a Police Accountability and Wellness package, approved to fund a suite of programs, services, and technology to support patrol officer wellness and safety, accountability, and effectiveness. Funding added to the Patrol Division will pay for video storage from body-worn cameras.
- $4.2 million General Fund, a reduction of $144,172 Other Funds expenditure limitation, and 13 positions (13.00 FTE) to maintain patrol services positions formerly funded by and provided for Oregon State University. Troopers and other staff will be re-deployed in the Willamette Valley.
- $4.9 million General Fund and 18 positions (11.25 FTE) to deploy additional troopers throughout the state. Funding includes vehicles and equipment for the new positions.
- $605,781 General Fund and one position (1.00 FTE) to implement the provisions of HB 2928, relating to the use of tools by law enforcement agencies.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the Patrol Division of $218.9 million total funds is 2.2% greater than the legislatively adopted budget. The General Fund portion of the budget increased by $4.8 million due primarily to adjustments for previously approved compensation plan changes.

Fish and Wildlife

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	9,950,445	11,173,914	11,199,449	11,415,280
Lottery Funds	10,362,821	11,069,398	11,068,651	11,317,795
Other Funds	31,560,232	32,723,531	33,574,181	34,568,020
Federal Funds	2,663,664	2,740,809	2,674,331	2,693,181
Total Funds	**54,537,162**	**57,707,652**	**58,516,612**	**59,994,276**
Positions	142	128	130	130
FTE	132.62	128.00	130.00	130.00

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) are distributed to this Division to fund enforcement activities associated with the allowed constitutional uses including protecting fish habitat and stream bed enhancement. Other Funds revenues are received from various sources, with the primary source a service contract with ODFW ($32.2 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 ($895,000) for activities on the Deschutes River and for ATV enforcement, and the Department of Environmental Quality ($326,000) for environmental investigations. Federal Funds are primarily received through National Oceanic Atmospheric Administration Joint Enforcement Agreements ($2.6 million).

Budget Environment

Fish and Wildlife troopers work in partnership with other state and federal natural resources agencies to enforce protection of Oregon's finite, and in some cases declining, fish and wildlife resources. Increasingly, the Division is called upon to investigate other types of natural resource violations, such as fill and removal, water quality and quantity, and forest practices violations. Specialized units within the Fish and Wildlife Division include the Special Investigations Unit, which conducts in-depth investigations of those violating Oregon's fish and wildlife laws; the Marine Fisheries Team; and a team responsible for enforcement issues related to the Oregon Plan, which is designed to restore threatened or endangered salmon and steelhead to sustainable levels.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Fish and Wildlife Division of $58.5 million total funds is 7.3% greater than the 2019-21 legislatively approved budget. The budget added $447,000 General Fund from the Police Accountability and Wellness package for video storage from body-worn cameras and $1.2 million Other Funds from asset sales to replace the agency's one ocean-going vessel.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Fish and Wildlife Division of $60 million total funds is $1.5 million greater than the legislatively adopted budget. The increase is due primarily to adjustments for previously approved compensation plan changes

Criminal Investigations

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	5,677,297	1,708,013	32,619,240	34,394,069
Other Funds	44,677,929	48,772,585	19,902,279	19,107,065
Federal Funds	1,579,966	885,623	872,146	3,911,934
Total Funds	**51,935,192**	**51,366,239**	**53,393,665**	**57,413,068**
Positions	135	114	118	118
FTE	135.00	114.00	117.52	117.52

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

Marijuana tax revenues assumed in the 2019-21 OSP budget totaled $38.9 million, supporting 75% of the Division's budget. Ballot Measure 110 (2020) changed the statutory allocations of Marijuana Tax revenues to state agencies, however, reducing the amount available to OSP in 2021-23 by $29.2 million, which the Legislature backfilled with General Fund. Other revenues include arson investigation funding ($4 million Other Funds) from the State Fire Marshal from Fire Insurance Premium Tax revenue; fees from records requests, civil penalties, and state seizures ($3.6 million Other Funds); revenues from intergovernmental agreements for services ($1.5 million Other Funds); and federal funds for drug enforcement and grant programs ($0.7 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 has remained high in all areas, including drug enforcement, major/violent crimes, sex abuse crimes, polygraph, and public official corruption cases. During 2018-19, the Division conducted over 11,400 investigations, including 3,253 investigations related to drug enforcement, 395 related to explosives, and 378 related to fires; 4,026 child abuse investigations; and 69 computer forensics investigations. In the 2019-21 biennium, detectives participated in county child abuse multi-disciplinary teams; 26 interagency major crime teams; 13 interagency drug task forces; and one drug/fugitive task force. Additionally, this division is faced with the volume and increasingly complex nature of digital evidence seized, and with increasing calls to assist with crimes involving illegal marijuana grows, which can include water theft, trespassing, and environmental destruction in addition to specific marijuana-related criminal offenses.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $53.4 million total funds is 2.8% greater than the 2019-21 legislatively approved budget. This budget includes a fund shift of $29.2 million Other Funds (Marijuana Tax) expenditures to General Fund; an addition of $1.3 million General Fund and four positions (3.52 FTE) to fund one Sergeant position to support the southwest Oregon regional drug interdiction task forces and one Sergeant and two trooper positions (2.64 FTE) to establish a Digital Forensics Unit; $398,522 Other Funds expenditure limitation (ARPA funds) on a one-time basis to purchase vehicles; and $382,632 General Fund to pay for video storage from body-worn cameras.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Criminal Investigation Division of $57.4 million total funds is $4 million greater than the legislatively adopted budget. The increase is due to a $3 million increase in Federal Funds expenditure limitation for the equitable sharing program and General Fund increases for previously approved compensation plan changes.

Forensic Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	48,660,322	55,339,856	54,908,257	54,908,257
Other Funds	1,636,961	417,084	2,300,994	2,400,107
Federal Funds	3,800,353	2,823,426	3,807,380	3,807,159
Total Funds	**54,097,636**	**58,580,366**	**61,016,631**	**61,115,523**
Positions	138	138	138	138
FTE	137.76	138.00	138.00	138.00

Program Description

The Forensic Services Division supports the criminal justice system by providing forensic analysis of evidence related to crimes. Scientific analysis and expert testimony assists judges and juries with determining guilt or innocence. The Division provides analysis and investigative assistance in several disciplines, including biology, chemistry, toxicology, crime scene investigation, DNA, latent prints, firearms, and tool marks. The Division operates five forensic laboratories, which are located in Bend, Central Point, Pendleton, Portland, and Springfield. The Division also operates an Implied Consent Unit which provides a breath alcohol testing program and instruments for law enforcement to use when a person is arrested for impaired driving. As Oregon's only full service forensic laboratory system, 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 $351,000 Other Funds revenues are from the Criminal Fine Account to support the Implied Consent Breath Test program. Federal Funds represent grants from the National Institute of Justice, generally for the purchase of laboratory equipment, supplies, and DNA test kits.

Budget Environment

The Forensics Division conducted analyses on 55,862 evidentiary submissions in the 2013-15 biennium, 53,773 in 2015-17, and 64,145 in 2017-19, with the numbers for the latter-most four years being substantially suppressed by restrictions discouraging evidence submission, put in place to address workload issues in the forensic labs. The Division completes analytical requests within its 30-day turnaround time goal only 18% of the time (based on the January 1, 2020 through June 30, 2020 timeframe). Delays are caused by increasing numbers of requests, staff turnover, increasing demands from law enforcement, and emerging drug trends.

DNA analysis of biological evidence has proven to be one of the most significant forensic tools for the criminal justice system available. On average, there is one "hit" in the DNA database for every 21 offender submissions, with a nearly 53% "hit" rate in burglary cases. A reduction in the Forensics Division's backlog of cases, improvements made in the DNA and Toxicology units, and the completion of training for a large group of new analysts is anticipated to allow the Division to re-start its high-throughput property crime program. Many states limit DNA analysis to person crimes; Oregon accepts DNA evidence from property crimes, but prioritizes person crimes, which has led to large backlogs and long turn-around times for property crime cases. In an attempt to mitigate the backlog of evidence, the Division is working with law enforcement agencies across the state to collect property crime evidence and submit it in a standardized manner.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $61 million total funds is 12.8% greater than the 2019-21 legislatively approved budget. This budget includes the addition of $1.6 million Other Funds expenditure limitation (ARPA funds) on a one-time basis for the purchase of laboratory equipment, and $994,359 Federal Funds expenditure limitation to allow a federal grant to be carried forward into the 2021-23 biennium.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the Forensic Services Division of $61.1 million total funds is only $98,892 greater than the legislatively adopted budget due to Other Funds expenditure limitation increases for previously approved compensation plan changes.

Office of the State Medical Examiner

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	6,166,154	6,594,102	9,778,687	9,778,687
Other Funds	314,987	310,410	296,844	455,925
Total Funds	**6,481,141**	**6,895,512**	**10,075,531**	**10,234,612**
Positions	13	13	29	29
FTE	12.5	12.5	27.16	27.16

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 9,700 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
Due to the fact that about 1% of Oregon's population dies each year, the workload for the Medical Examiner's Office increases based on population growth in Oregon. Although the state's population has grown 60% since 1980, the Medical Examiner's Office staffing remains at a level necessary to serve the 1980 Oregon population, limiting the Office's ability to perform autopsies on deaths other than those under investigation for homicide.

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 Oregon. 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. Further, due to differing levels of resources dedicated to death investigation between urban and rural counties, equitable distribution of these professional resources is not achieved.

Legislatively Adopted Budget
To address the Office's growing workload, the 2021-23 legislatively adopted budget was increased by 55.5% over the 2019-21 legislatively approved budget to $10.1 million total funds and includes sixteen new positions (14.66 FTE), more than doubling the Office's staffing level. $1.4 million General Fund and six positions (5.64 FTE) were

added to supplement the Office's staffing to address the increasing number of autopsies performed each year. The new positions are three Medical Laboratory Technicians, one Office Specialist 2, one Research Analyst 2, and one Deputy Medical Examiner, plus necessary services and supplies. An additional $1.9 million General Fund, ten positions (9.02 FTE), and four position reclassifications were approved to further bolster staffing levels in both the Medical Examiner's Office and in the Forensic laboratories and to provide additional resources to address short-term overcapacity issues at the Clackamas morgue, including contract dollars for traveling pathologists, refrigerated trailer rental, and funding to outsource laboratory analysis of toxicology samples.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Medical Examiner's Office of $10.2 million total funds is only $159,081 greater than the legislatively adopted budget due to Other Funds expenditure limitation increases for previously approved compensation plan changes.

Agency Support Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	53,716,415	57,771,020	61,406,675	63,447,512
Other Funds	5,201,254	3,747,245	3,689,999	4,027,983
Federal Funds	173,261	185,376	--	--
Total Funds	**59,090,930**	**61,703,641**	**65,096,674**	**67,475,495**
Positions	147	145	153	153
FTE	147.53	146.33	153.73	153.73

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 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. Additional Other Funds revenue is received from the Oregon State Police Officers Association (OSPOA) to reimburse the state for the union president's salary.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Agency Support Services is $65.1 million total funds, which is 10.2% higher than the 2019-21 legislatively approved budget. The major investment in Agency Support Services was the addition of $3 million General Fund and eight positions (7.04 FTE) to implement most parts of the Police Accountability and Wellness package, including three positions (2.76 FTE) in the Office of Professional Standards, one position (1.00 FTE) in the Training Unit, and four positions (3.64 FTE) to establish the Health, Wellness, and Resiliency Unit. $641,700 of this amount is provided on a one-time basis for the purchase of at-home firearms storage lockers for sworn staff and for additional firearms storage lockers in Patrol offices statewide. Additionally, HB 2930 (2021) added $255,773 General Fund on a one-time basis to provide training to sworn law enforcement officers on the new standards developed by the Commission on Statewide Law Enforcement Standards of Conduct and Discipline.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Agency Support of $67.5 million total funds is $2.4 million greater than the legislatively adopted budget due to $2 million General Fund and $337,984 Other Funds expenditure limitation increases for previously approved compensation plan changes.

Administrative Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	20,448,684	20,842,349	22,259,349	24,586,192
Other Funds	6,261,545	6,328,079	10,035,603	10,035,603
Federal Funds	477,580	498,116	498,116	498,116
Total Funds	**27,187,809**	**27,668,544**	**32,793,068**	**35,119,911**
Positions	86	86	92	92
FTE	84.49	84.96	90.24	90.24

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 2021-23 legislatively adopted budget for the Administrative Services Division of $32.8 million total funds is 20.6% higher than the 2019-21 legislatively approved budget. An investment of $706,908 General Fund and three positions (2.64 FTE) establishes an agency-wide Diversity, Equity, and Inclusion Team; $125,000 of that amount is for implicit bias training for all staff. An additional $587,939 General Fund adds three positions (2.64 FTE) to increase the agency's capacity for implementing capital projects, managing grants, and developing and managing the biennial budget. $2.7 million Other Funds expenditure limitation (ARPA funds) is provided on a one-time basis to pay certain non-bondable costs of capital construction projects; and an additional $1.4 million Other Funds expenditure limitation pays the cost of issuing $111.6 million Article XI-Q bonds for three capital construction projects *(see below)*.

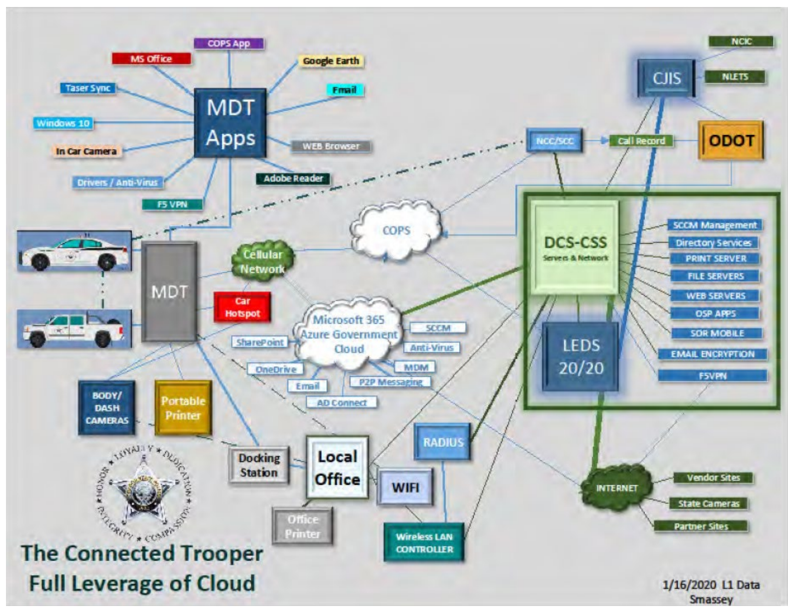
Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the Administrative Services Division of $35.1 million total funds is $2.3 million greater than the legislatively adopted budget due to General Fund increases for previously approved compensation plan changes.

Criminal Justice Information Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	7,944,153	11,886,106	14,866,230	17,647,454
Other Funds	19,188,502	20,567,109	22,867,543	23,349,795
Federal Funds	4,126,477	5,071,291	4,929,861	4,929,861
Total Funds	**31,259,132**	**37,524,506**	**42,663,634**	**45,927,110**
Positions	95	113	130	130
FTE	95.00	113.00	127.96	127.96

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 three sections, the Law Enforcement Data System (LEDS), the Identification Services Section (ISS), and the Sex Offender Registration Section (SOR). 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. The Sex Offender Registry program maintains the state sex offender registry, which contains information on more than 31,000 offenders who live, work, or attend school in an Oregon community. Oregon has up to 26 registerable sex crimes. Over the past ten years, the SOR program has added an average of 1,200 new offenders to the database annually.

Revenue Sources and Relationships

Other Funds supports 54% 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 handgun, and employment and licensing background checks ($17.1 million). The Division also receives federal grant funds from the U.S. Department of Justice ($5.2 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 is a mission critical system for all law enforcement agencies that must operate 24 hours a day, 7 days a week, 365 days a year, with 99.95% required uptime.

A project to replace the LEDS system (LEDS 20/20) was approved by the Legislature in 2015. The agency has implemented the new message switch and user interface systems, completed data migration and user interfaces, and has conducted user acceptance testing. A final phase of the project will replace the current sex offender registry software and incorporate it into the LEDS system and into the state's criminal justice data repository. This phase of the project is estimated to be completed in 2022 at a cost of $2.1 million General Fund.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for the Criminal Justice Information Services Division of $42.7 million total funds is 36.5% more than the 2019-21 legislatively approved budget. The Sex Offender Registry program moved into the CJIS Division from the Criminal Investigations Division, thereby increasing the CJIS budget by $4.9 million and eighteen positions (18.00 FTE); the final phase of the LEDS 20/20 project was funded on a one-time basis with $2.1 million General Fund and with $676,272 General Fund for ongoing State Data Center hosting costs; and the Background Check Unit was provided with $2.4 million Other Funds expenditure limitation on a one-time basis and seventeen limited-duration positions (14.96 FTE) to clear a backlog of firearms background checks.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the Criminal Justice Information Services Division of $45.9 million total funds is $3.3 million greater than the legislatively adopted budget due to increases for salary and compensation adjustments and a one-time General Fund investment of $2.6 million for the Firearms Instant Check System unit intended to fund limited duration positions to help address a backlog in firearm background checks.

Gaming Enforcement Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	187,569	231,666	231,666	358,406
Other Funds	12,116,513	13,507,926	13,340,238	13,340,238
Total Funds	**12,304,082**	**13,739,592**	**13,571,904**	**13,698,644**
Positions	36	37	37	38
FTE	36.26	36.71	36.71	36.96

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 ($8.4 million). Native American Tribes fund the Tribal Gaming Section activities ($4.2 million). The Vendor Investigation Section is funded by both the Oregon Lottery and vendors conducting business with Oregon's Gaming Tribes ($1.3 million). License fees and a gross receipts tax (6%) fund the Oregon Athletic Commission regulatory activities ($355,000). 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 in the Gaming Enforcement Division support one Compliance Specialist 2 position added in 2019. This was done because in the past 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 3,930 lottery retailers with nearly 12,000 video lottery terminals throughout the state. The Lottery Security Section conducts background investigations on all prospective Lottery employees, game retailers, vendors, and contractors; 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 7,400 slot machines in this state. The vendors who conduct business with both the Lottery and the tribal casinos are adding to their business models, often by purchasing subsidiary companies that operate in the area of complex gaming technology. This requires the Vendor Inspection Section to stay current in new technologies and to have adequate staff to provide appropriate investigations.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Gaming Division of $13.6 million total funds is 10.3% more than the 2019-21 legislatively approved budget and funds the current level of service for this program.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Gaming Enforcement Division of $13.7 million total funds is $126,740 greater than the legislatively adopted budget due to increases for previously approved compensation plan changes and the establishment of a permanent nonsworn position (0.25 FTE) to act as the Department's tribal liaison.

State Fire Marshal

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	12,843,603	461,145	101,295,847	116,290,189
Other Funds	48,970,229	30,757,211	54,930,905	55,546,208
Federal Funds	544,696	570,251	569,137	569,137
Total Funds	**62,358,528**	**31,788,607**	**156,795,889**	**172,405,534**
Positions	92	67	125	144
FTE	72.09	67.00	118.07	123.57

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

Prior to the significant infusion of General Fund resources for the 2021-23 biennium, this Division was 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 ($4 million), $2 million supports internal administrative functions, and the remainder ($21.8 million) is used for State Fire Marshal programs.

Additional Other Funds revenues are generated through the hazardous substance user fees ($3.9 million) for the Community Right to Know program; petroleum load fees ($5.2 million) for the Hazardous Response Teams; non-retail fuel dispensing fees ($804,000) for card lock enforcement; licenses and permits (relating to liquefied petroleum gas and fireworks) totaling $980,000; and from an interagency agreement with the Department of Human Services for fire and life safety inspections of Medicare and Medicaid funded facilities ($838,000). Federal Funds revenue of $591,000 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, with 2020 being especially extreme. The Governor declared 4 conflagrations in 2017, 11 conflagrations in 2018, no conflagrations in 2019, and 18 conflagrations in 2020, ten of those on the same day. 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 2017 and 2018 totaled $33.2 million; expenses in 2020 totaled $26.5 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 2021-23 legislatively adopted budget for the Office of the State Fire Marshal totals $156.8 million total funds and 125 positions (118.07 FTE). This budget is 151.4% greater than the 2019-21 legislatively approved budget and 393.2% greater than the current service level, due entirely to the resources provided in SB 762 (2021), an omnibus measure relating to wildfire. For OSFM, the measure provided:

- $13.5 million General Fund and 56 positions (49.73 FTE) to implement a new Community Risk Reduction program and make grants from the associated Community Risk Reduction Fund, to administer and enforce minimum defensible space standards, and to increase the Office's wildfire readiness and response capacity.
- $7 million General Fund for the community activities and educational programs required for the Community Risk Reduction program.
- $25 million General Fund for deposit into the new Community Risk Reduction Fund, and $25 million Other Funds expenditure limitation in order to make grants from the fund.
- $55 million General Fund to modernize and enhance the Oregon Fire Mutual Aid System to increase the office's wildfire readiness and response capacity. This funding can be used for fire prevention and response personnel, to pre-position firefighting resources statewide, and to enter into contracts for fire prevention, suppression, coordination, and response.

Additionally, the budget includes $300,000 General Fund and two positions (1.34 FTE) for the Oregon Safety Assessment Program, created in 2019 by HB 2206 and $25,000 General Fund on a one-time basis for OSFM to study and develop recommendations for ways rural fire protection districts can use assets to facilitate community development efforts following a natural disaster.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the State Fire Marshal of $172.4 million total funds is $15.6 million greater than the legislatively adopted budget and includes 19 additional positions (5.50 FTE) for the preparation of establishing the Office of the State Fire Marshal as an independent state agency effective July 1, 2023. The major investments that make up the $15.6 million include:

- $11.3 million General Fund for one-time 2021 fire costs.
- $1.8 million General Fund for the positions and associated costs for the establishment of the Department of the State Fire Marshal.
- $1.1 million General Fund for the one-time purchase of wildland firefighting equipment for Estacada Rural Fire Protection District.
- $714,060 General Fund for salary and compensation adjustments.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	356,360	--	2,674,818	2,674,818
Other Funds	148,840	--	--	--
Total Funds	**505,200**	**--**	**2,674,818**	**2,674,818**

Program Description
The Debt Service Program provides funding for principal and interest costs associated with the issuance of Article XI-Q bonds to finance capital projects.

Budget Environment
SB 236 (2015) gave the Oregon State Police the authority to own real property. In 2017, DAS 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.

Legislatively Adopted Budget
Debt service was broken out in a separate OSP budget structure for the first time in 2019-21; the 2017-19 actual expenditures shown in the table above had been budgeted in the Administrative Services Division. The total funds budget for 2021-23 of $2,674,818 General Fund is the estimated debt service cost for bonds to be issued in the 2021-23 biennium for the three capital construction projects described in the next section.

Legislatively Approved Budget Update
There are no changes to the 2021-23 legislatively approved budget for debt service.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	--	110,205,689	110,205,689
Total Funds	**--**	**--**	**110,205,689**	**110,205,689**

Program Description
The Capital Construction program plans, designs, and constructs facilities projects with a cost of more than $1 million.

Revenue Sources and Relationships
Funding for OSP Capital Construction projects is provided by Article XI-Q general obligation bonds. Funding for certain non-bondable costs of construction projects comes from the American Rescue Plan Act (ARPA) for the 2021-23 biennium, transferred from DAS.

Budget Environment
During the 2017-2019 and 2019-21 biennia, OSP’s Facilities Program developed and completed a Strategic Facility Master Plan, which identified the agency’s key facilities challenges over the next ten years. Challenges include spaces that are too small or inefficient for program needs, buildings lacking security features, and facilities that are outdated and unable to support the program functions operating within them. The Master Plan identified OSP facilities in Central Point and in Springfield as the agency’s most critical facilities issues.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for Capital Construction totals $110,205,689 Other Funds. Proceeds from the sale of Article XI-Q bonds and associated six-year capital construction expenditure limitation will fund the following capital projects:

- Central Point Office Expansion, $33,961,269 Other Funds, to remodel and expand the Central Point Office facility to add space for the forensic lab, evidence, medical examiner, and patrol functions.
- Springfield Forensic Lab and Medical Examiner’s Office, $61,982,733 Other Funds, for the design and construction of a new forensic lab and medical examiner facility in Springfield.
- Springfield Patrol Area Command Office, $14,216,687 Other Funds, for the design and construction of a new command office facility in Springfield, including a warehouse for storage.

Legislatively Approved Budget Update
There are no capital construction expenditure limitation changes to the 2021-23 legislatively approved budget.

DEPARTMENT OF PUBLIC SAFETY STANDARDS AND TRAINING

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	9,357,609	9,107,640	9,107,640	9,107,640
Other Funds	52,400,938	53,102,054	55,369,818	56,806,356
Other Funds (NL)	32,010,001	--	--	--
Federal Funds	8,510,332	7,614,469	7,776,846	8,018,038
Total Funds	**102,278,880**	**69,824,163**	**72,254,304**	**73,932,034**
Positions	152	152	160	160
FTE	149.87	151.25	158.74	158.74

Overview

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 41,000 public and private safety professionals in Oregon. The Department accomplishes its mission through five programs:

- Criminal Justice Training and Certification Program – Provides training and certification for state troopers, city, tribal and university police, sheriff deputies, local correctional officers, parole and probation officers, 9-1-1 telecommunicators, emergency medical dispatchers, Oregon Liquor Control Commission 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 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 11,000 state and local criminal justice professionals.
- Fire Training and Certification Program – Provides training across the state to over 11,000 career and volunteer firefighters through hundreds of classes annually. This program also certifies firefighters based on national standards, has issued over 49,300 certifications to fire service professionals, and processes approximately 8,200 renewals biennially. The program 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, assists 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 21,000 private security providers statewide. There are approximately 800 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 $7.6 million in the 2021-23 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 lead-free 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 five locations – Central Point, Baker City, Hermiston, Banks, 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	2017-19 Actual	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted
Criminal Justice	23,921,912	26,970,337	27,194,826	28,095,156
Fire Training	6,581,406	6,559,365	5,188,892	5,354,066
Private Security	2,512,212	2,827,355	3,141,710	3,807,682
Admin and Support	14,924,276	16,895,689	17,299,117	18,000,579
Debt Service	9,795,963	9,357,609	9,107,640	9,107,640
Debt Refinancing, July 2020	--	32,010,001	--	--
PS Memorial Fund	85,990	279,495	291,525	291,525
Oregon HIDTA	6,488,925	7,379,029	7,600,453	7,597,656
Total Funds	**64,310,684**	**102,278,880**	**69,824,163**	**72,254,304**

Revenue Sources and Relationships

General Fund resources support only debt service payments on bonds issued for construction of the training facility in Salem. The agency's primary source of funding is an allocation from the Criminal Fine Account (CFA) totaling $43.5 million, which supports the Criminal Justice Training and Certification, Administration and Support Services Programs, as well as 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.

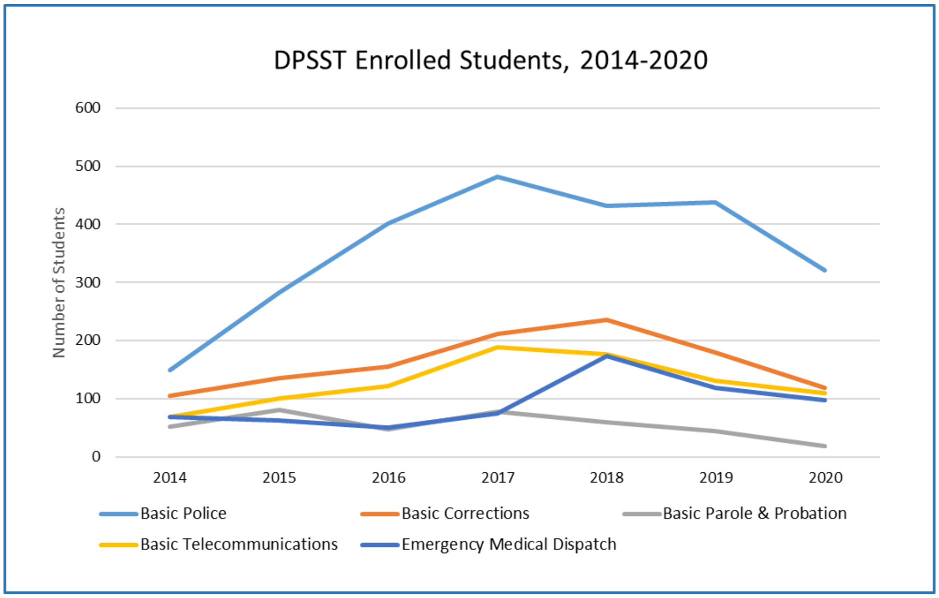
The agency charges licensing and certification fees to support the Private Security/Investigators Program ($2.6 million), and receives traffic safety grant funding from the Oregon Department of Transportation ($0.4 million). The 9-1-1 telephone excise tax ($0.8 million) supports training services for 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 regularly 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 following the 2009 recession and as the number of retiring "baby boomers" increased during the past decade, state and local public safety agencies increased hiring in order to fill vacant positions. Demand for Basic Police classes increased dramatically between 2014-2017, began leveling off after 2018, and showed a sharp decline in 2020 due to the COVID-19 pandemic. The

2021-23 budget fully funds 16 Basic Police classes, nine Basic Corrections classes, and five Basic Parole and Probation Officer training classes.



The 2020 and 2021 legislative sessions saw passage of a slate of police reform bills, several of which address DPSST responsibilities, including law enforcement training, accreditation, and officer misconduct. Two of these measures added funding and new requirements for DPSST. HB 2162 requires DPSST to designate an accrediting body for law enforcement agencies and to establish a statewide equity training program as a required part of the training for law enforcement officer certification. The measure provided $409,468 Other Funds expenditure limitation and two positions (2.00 FTE) for this new function. HB 2527 requires DPSST to license private security entities, and allows the agency to establish a new fee to pay for this service. The measure provided $655,972 Other Funds expenditure limitation and three positions (3.00 FTE) to implement the new program. Additionally, the Legislature provided $202,475 Other Funds expenditure limitation and one permanent position (0.83 FTE) to develop a training program for instructor development, which the agency currently does not provide after an instructor is certified. The new program will provide a means of keeping DPSST's full and part-time instructors current on best practices in policing, cultural competence, implicit bias, emotional intelligence, police legitimacy and procedural justice, legal updates, use of force, and other topics.

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 to begin collecting data by July 1, 2018. The 2017-19 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 budget added 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, and the 2021-23 adopted budget adds $354,620 Other Funds expenditure limitation and two research analyst positions (1.66 FTE) to provide local police agencies with analyses that examine specific contextual factors contributing to any disparities identified by the Criminal Justice Commission's analysis of traffic and pedestrian stop data. Additionally, these analysts will help with identifying and evaluating specific improvements for police agencies and the effectiveness of training provided by DPSST.

The Oregon Public Safety Academy campus is 16 years old, and though the buildings are comparatively new and well-maintained, the facility is heavily used, and all 25 of the main buildings were built at the same time. 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 kitchen equipment and roofs 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 2021-23 budget includes $1.2 million Other Funds expenditure limitation on a one-time basis to replace kitchen equipment and to begin on roof replacements anticipated to occur over the next several biennia.

<u>Legislatively Adopted Budget</u>

The 2021-23 legislatively adopted budget for this agency is $72.3 million total funds, which is 29.4% less than the 2019-21 legislatively approved budget due to a one-time bond refinancing of $32 million in 2019-21. Absent that action, the 2021-23 budget is 2.8% more than 2019-21 levels. Authorized positions for 2021-23 total 160 (158.74 FTE).

Additions to DPSST programs in the 2021-23 legislatively adopted budget included:

- Two new positions (1.66 FTE) and $360,656 Other Funds expenditure limitation for the STOP program.
- One new position (0.83 FTE) and $202,475 Other Funds expenditure limitation to develop a new instructor training program.
- $1.2 million Other Funds expenditure limitation for deferred maintenance projects, funded with American Rescue Plan Act (ARPA) funds transferred from the Department of Administrative Services.
- As mentioned above, two policy bills added funding and new requirements for DPSST. HB 2162 provided $409,468 Other Funds expenditure limitation and two positions (2.00) for statewide equity training, and HB 2527 provided $655,972 Other Funds expenditure limitation and three positions (3.00 FTE) to implement a new program to license private security entities.

<u>Legislatively Approved Budget Update</u>

The total funds 2021-23 legislatively approved budget is $73.9 million, or $1.7 million higher than the legislatively adopted budget. The increase includes Federal Funds expenditure limitation of $232,042 for the Assistance to Firefighters Grant and increases to Other Funds and Federal Funds for previously approved compensation plan adjustments.

OREGON YOUTH AUTHORITY

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	329,686,394	364,445,248	264,390,059	272,742,971
Other Funds	18,073,016	7,239,492	154,743,091	154,772,236
Federal Funds	36,674,284	35,198,939	36,788,861	37,034,286
Total Funds	**384,433,694**	**406,883,679**	**455,922,011**	**464,549,493**
Positions	1,008	992	1,001	1,001
FTE	980.88	964.38	971.66	971.66

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. Just 2% of Oregon youth aged 12-17 are referred to the juvenile justice system; of those who are adjudicated for criminal behavior, two-thirds are served by county juvenile departments and one-third are committed to OYA facilities or OYA probation. 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 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 racial and 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. Subsequently, SB 1008 (2019) ended the automatic prosecution of 15-17 year olds as adults for Ballot Measure 11 offenses; authorizing adult prosecution only after a juvenile court hearing and waiver to adult court. SB 1008 applies to youth convicted or adjudicated after January 1, 2020 and will change close custody and OYA parole populations, although the long-term impact is uncertain and the bill's implementation has been somewhat delayed by the effect of the COVID-19 pandemic on court proceedings. Currently, about two-thirds of the agency's close custody capacity is for youth adjudicated in juvenile court, with one third remaining for youth convicted in adult court or waived on Measure 11 offenses. Under SB 1008, more youth may come to OYA through the juvenile court, which will increase the number of youth eligible for community-based programming and for juvenile parole. The 2021-23 legislatively adopted budget fully funds the operation of 26 close-custody living units in the agency's nine facilities throughout the state, with an anticipated population of between 15-20 youth per living unit.

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. An extensive capital construction program started in 2015-17 and is bond-financed.

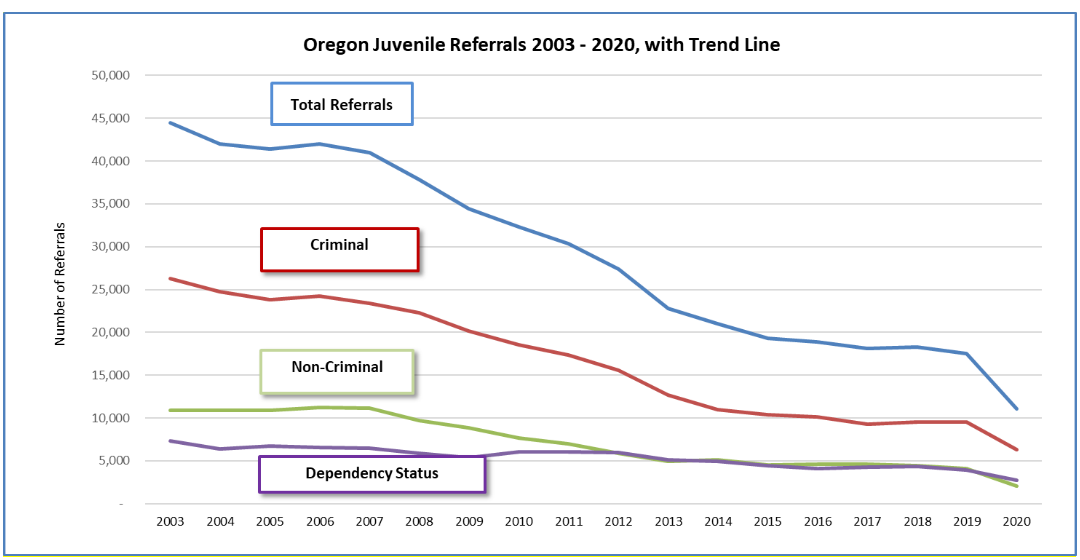
Federal Medicaid reimbursements partially pay for the cost of community residential treatment programs and targeted case management services provided by OYA juvenile parole and probation staff. Revenue from this federal source provides about 38% of the funding for residential treatment programing. Overall, federal fund reimbursements will cover about 24% of the Community Services program costs in the 2021-23 biennium. Foster care costs are supported with General Fund.

The largest Other Funds sources of operating revenues are youth trust fund reimbursements and the U.S. Department of Agriculture (USDA) School Nutrition Program. The budget includes $1.5 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. SB 817 (2021) eliminated fines, fees, and court costs associated with juvenile delinquency matters, which is anticipated to reduce Other Fund revenues received by OYA in the 2021-23 biennium by around $800,000.

The Department's 2021-23 budget includes $105.4 million of American Rescue Plan Act (ARPA) Coronavirus State Fiscal Recovery funds to maintain public safety services in the Facilities Program ($100 million), with the remainder used to purchase equipment and support capital improvements in multiple facilities.

Budget Environment

The majority of youth enter Oregon's juvenile justice system through referrals to county juvenile departments. As is the case nationally, Oregon has experienced a substantial decline in referrals to county juvenile departments over the past 17 years. A simple comparison between 2010 and 2020 shows total referrals have declined by 65%. Furthermore, while not evident in the graph below, referrals in the two major crime types posted large decreases during the 2010-2020 period: felony (-71%) and misdemeanor (-73%). 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 comparatively flat (1% increase from 2010 to 2020). Of the 11,079 youth who received a disposition on a referral in 2020, just 381 were committed to OYA close custody.



While the overall number of juvenile referrals is dropping, the number of youth referred to OYA with acute needs - significant mental health or developmental disabilities, for example - has remained steady. Biennial biopsychosocial surveys of youth in OYA custody from 2014 through 2020 show that an average of 89% of young women and 58% of young men have a diagnosed mental health disorder. Other risk factors are shown in the table below. A shortage of medically-supervised detoxification and treatment for substance abuse, resources for those with intellectual/developmental disabilities (I/DD), and psychiatric treatment services in the community has resulted in more youth being committed, by default, to OYA close custody who would be more successfully served elsewhere. The 2021-23 legislatively adopted budget includes $96.2 million in funding for health services, behavioral healthcare and treatment in programs throughout the agency's continuum of care.

Social Characteristics of OYA Youth	***Average 2014-2020*** **Female**	**Male**
Biological Parent of a Child	10%	11%
Diagnosed Conduct Disorder	47%	50%
Diagnosed Mental Health Disorder	89%	58%
Parents Used Alcohol or Drugs	80%	65%
Past Suicidal Behavior	29%	11%
Sexually Abused	43%	15%
Special Education	27%	34%
Substance Abuse or Dependence	73%	62%

Even prior to a steep drop in usage due to the COVID-19 pandemic in 2020, OYA's use of community residential treatment beds had been declining steadily. Factors contributing to decreased usage of this resource include:

- A mismatch between available providers and youth needing services - for example, fewer providers serving young women than young women needing residential treatment.
- A mismatch between services available and services needed. At any given time, OYA might have more youth requiring a particular service than there are treatment providers offering that intervention.
- Lower than anticipated use of community residential placements as "step-down" options for those youth transitioning into the community after being released from close custody facilities.
- Difficulty with finding new or different placements for the not insignificant number of youth who run away from community residential treatment programs.

The 2021-23 adopted budget includes $70.2 million total funds for 328 community residential treatment beds, about sixty more than were used, on average, during the 2019-21 biennium, which included a significant dip in usage during the 2020 calendar year due to the COVID-19 pandemic. Total funding includes an increase of $4 million to raise the rate paid to providers of behavioral rehabilitation services to the 2021 Oregon Wage Information rate published by the Oregon Employment Department.

ORS 420.085 requires the Department of Administrative Services' Office of Economic Analysis (OEA) to prepare a semi-annual forecast of demand for close custody and community placements. The current forecast methodology estimates the number of youth coming to OYA in 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 ideal 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. This forecast methodology is based on *estimated* demand and is indifferent to available budget, available close-custody capacity, or whether the demand is met, making it less than useful for planning purposes. The Juvenile

Corrections Population Forecast Committee is currently working to revise the youth population forecast methodology to more closely anticipate the number of youth likely to be adjudicated to the care and custody of OYA.

To address the declining youth population and the agency's increasing deferred maintenance requirements, the Legislature in 2013 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 facility improvements including the construction of 16-bed single-occupancy living units at MacLaren, closing the Hillcrest facility, improving all other youth correctional facilities, and operating a transitional housing facility for young women. Implementation of the plan was started during the 2015-17 biennium and is substantially complete; the current status of the remaining improvements is noted in italicized font below.

- 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 in four youth correctional facilities, as of 7/1/2021.*
- Addressing ADA, seismic, and deferred maintenance needs statewide. *Underway, as of 7/1/2021.*

The Legislature authorized general obligation bonds totaling almost $100 million for the ten-year plan in 2015-17 and 2017-19. Some construction timelines have slipped, and some estimated construction costs have increased, however pending further modifications to the project scope, the revised timeframe for completion is June 2023. The 2021-23 budget includes $32.5 million of new Article XI-Q general obligation bond funding to complete campus renovation and other building projects throughout OYA facilities.

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. Planning to replace the system began in 2017 and the project received its Stage Gate 2 endorsement (resource and solution planning and analysis) from the Department of Administrative Services - Enterprise Information Services (DAS EIS) in April 2020. Implementation of the software solution will begin during the 2021-23 biennium, funded with $7.7 million of Article XI-Q bond proceeds and with $1.6 million of American Rescue Plan Act State Fiscal Recovery (ARPA) funds.

<u>Legislatively Adopted Budget</u>

The 2021-23 legislatively adopted budget totals $264.4 million General Fund, $455.9 million total funds, and 1,001 positions (971.66 FTE). General Fund is decreased by 19.8% from the 2019-21 legislatively approved budget, while total funds are 18.6% more, due to American Rescue Plan Act Coronavirus State Fiscal Recovery (ARPA) funds being used in place of General Fund, on a one-time basis, in the Facility Program to support public safety services.

Additional significant changes in OYA's 2021-23 legislatively adopted budget included:

- Funding for community residential treatment beds was reduced by $2 million General Fund to reflect lower-than-anticipated usage of community-based residential treatment services.

- The agency's diversity, equity, and inclusion priorities were funded with $1.2 million General Fund, $28,671 Federal Funds expenditure limitation, and six positions (5.03 FTE).
- $2.4 million General Fund and $1.7 million Federal Funds expenditure limitation will increase the rates paid to providers of behavioral rehabilitation services (BRS).
- $675,391 General Fund covers the increased cost of providing sex offense treatment services in OYA's close custody facilities, and an additional $574,510 General Fund addresses the increased cost of providing sex offense treatment by BRS providers. The latter amount is provided on a one-time basis pending Medicaid funding for this service.
- $40.3 million of Article XI-Q bond proceeds will allow the agency to complete its renovation of living units at MacLaren, Tillamook, and Camp Riverbend; continue the Juvenile Justice Information System (JJIS) Modernization project, and complete capital improvements at other OYA facilities. $1.3 million of this amount pays the cost of bond issuance. $4.5 million General Fund was added to pay new debt service obligations in the 2021-23 biennium.
- $5.4 million ARPA funds will pay for the non-bondable costs of capital improvement projects and the JJIS Modernization project, replacement of the emergency generator at Maclaren, and replacement of the parole and probation office at the Oak Creek Youth Correctional Facility.
- $1.8 million General Fund will reimburse counties for the cost of automatically expunging certain juvenile court records.

Legislatively Approved Budget Update

The legislatively approved budget is $464.5 million total funds, an increase of $9.8 million from the legislatively adopted budget. Changes to the budget include the transfer of two vacant permanent full-time positions between programs to enhance the agency's Diversity, Equity, and Inclusion Office and adjustments for previously approved compensation plan changes.

Facility Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	180,567,734	184,286,882	85,822,297	91,619,683
Other Funds	8,894,191	4,793,800	109,800,360	109,829,505
Federal Funds	132	--	--	--
Total Funds	**189,462,057**	**189,0080,682**	**195,622,657**	**201,449,188**
Positions	737	721	725	724
FTE	710.25	694.50	697.63	696.63

Program Description

OYA operates close-custody facilities across the state with varying levels of security and structure and a range of treatment services. OYA facilities include:

- Oak Creek Youth Correctional Facility (YCF) for young women and the Young Women Transition Program 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 total of 26 fully-staffed living units were budgeted for 2021-23 including 20 living units in five youth correctional facilities for youth adjudicated for more serious offenses, and 6 living units in four formal transition facilities to help youth move successfully back into the community. The built capacity of these living units could house a maximum of 585 youth but the April 2021 10-year OYA population forecast and current average daily population of about 425 youth allows the agency to achieve its administratively-established population management plan for housing between 15-20 youth per living unit. The agency's largest youth correctional facility, MacLaren, serves a variety of populations, as well as providing statewide male intake and parole violator intake assessment activities. Other facilities range in size from one to four living units, 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.

<u>Budget Environment</u>

Referrals for juvenile delinquency have gone down consistently for the past twenty years, and sharply since 2007, to just 65% of the number of referrals in 2010. 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 its 2020 Biopsychosocial Summary that 61% of male and 68% of female offenders in its custody have been assessed as substance-abusive or -dependent. Further, about 78% of the males and 89% of the females meet the psychiatric requirements for a mental health disorder.

After having taken significant steps toward providing services tailored for young women, OYA is focusing its efforts on improving diversity, equity, and inclusion in its programs and services. Data show that youth of color and lesbian, gay, bisexual, transgender, queer or questioning (LGBTQ+) youth are disproportionately represented in the juvenile justice system and experience disparate outcomes following juvenile justice programs, services, and interventions. Efforts underway include recruiting a more diverse workforce, hiring staff to develop culturally-specific programming, establishing contracts with qualified therapists who specialize in gender identity issues, staffing the tattoo removal program, and funding conflict resolution trainers.

<u>Legislatively Adopted Budget</u>

The legislatively adopted total funds Facilities budget of $195.6 million is 8.9% higher than the 2019-21 legislatively approved budget. The significant one-time change to this program is the replacement of $100 million General Fund with $100 million ARPA State and Local Fiscal Recovery funds for the provision of public safety services, transferred from the Oregon Department of Administrative Services and expended in the OYA budget as Other Funds.

Other budget increases included:

- $214,466 General Fund and one position (0.88 FTE) for a conflict resolution specialist to support facility staff members in conflict resolution and mediation skills and in gang intervention strategies. This is one of six new positions agency-wide providing support services to advance OYA's diversity, equity, and inclusion priorities.
- $675,391 General Fund and three permanent full-time Sex Offense Treatment Board (SOTB) certified sex offense treatment coordinator positions (2.25 FTE) for OYA's close custody facilities. The positions will provide ongoing supervision of the qualified mental health professionals (QMHPs) currently providing sex offense treatment in OYA facilities and will provide sex offense treatment at those facilities without a board-certified treatment provider.

- $801,378 General Fund to pay the cost of care for youth that was formerly paid for with juvenile justice system fees eliminated by SB 817 (2021).

Legislatively Approved Budget Update

The legislatively approved budget for Facilities is $201.4 million total funds, an increase of $5.8 million from the legislatively adopted budget. Changes to the budget include the transfer of a vacant permanent full-time positions from the Facilities program to Program Support to enhance the agency's Diversity, Equity, and Inclusion Office, which has a net zero impact on the overall budget and adjustments for previously approved compensation plan changes.

Community Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	87,898,653	106,617,010	107,134,831	107,907,106
Other Funds	2,236,111	2,362,828	2,362,828	2,362,828
Federal Funds	35,094,066	33,242,460	34,899,964	35,085,275
Total Funds	**125,228,830**	**142,222,298**	**144,394,623**	**145,355,209**
Positions	138	139	139	138
FTE	137.63	137.88	137.88	136.88

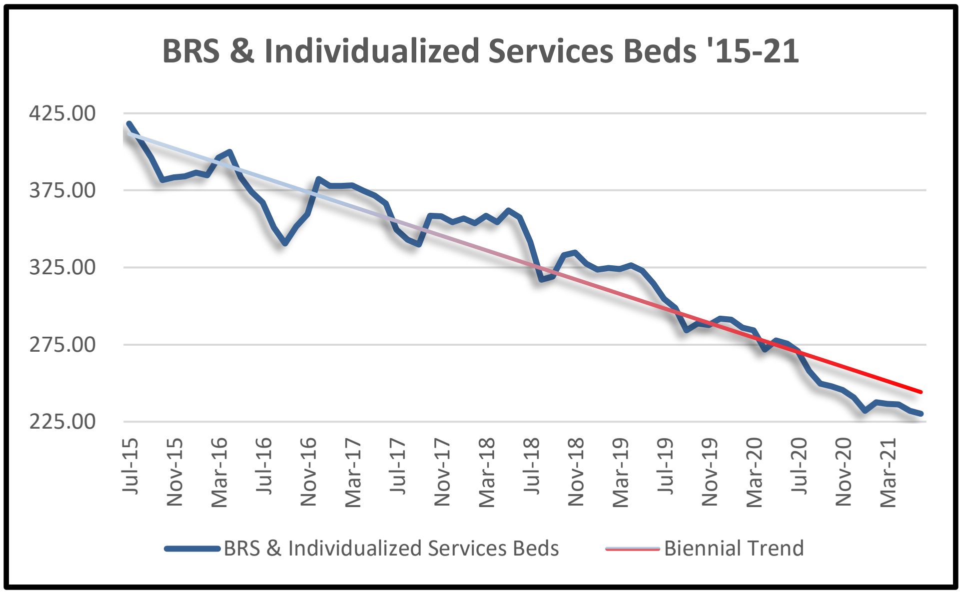
Program Description

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 2021, OYA had 335 youth in the community on probation and 314 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 providers.

As shown in the table to the right, OYA's use of community residential treatment beds has been declining since 2015. SB 1008 will increase the number of youth adjudicated in juvenile court, which has the potential to change residential treatment bed usage, funding requirements for community services, and the types of services needed in the community. For example, OYA will have parole authority for a larger number of older youth, who may need transitional housing, job training and career coaching, and other types of life skills services not presently available in the Medicaid-supported BRS system. Providers of culturally-specific services are in short supply and the barriers to entry for non-profit service providers are high. Funding provided for 2021-23 to increase the rates paid to providers of behavioral rehabilitation services is anticipated to encourage a greater variety of service providers to contract with OYA's Community Program.



Legislatively Adopted Budget

The Community Programs 2021-23 legislatively adopted total funds budget of $144.4 million is 15.3% more than the 2019-21 legislatively approved budget. This level of funding provides about 328 community treatment, foster care, and residential beds, reduced slightly from the current service level number of 338 beds. As of July 2021, the agency housed an average of 236 youth in residential placements throughout the state.

Funding for BRS providers was increased by $4 million total funds to bring funding to the level anticipated in the June 2021 Oregon Wage Information (OWI) published by the Oregon Employment Department. An additional $574,510 General Fund was added on a one-time basis to pay the increased cost of providing sex offense treatment, pending Medicaid funding for this service. Payments to counties for juvenile crime prevention and diversion for the 2021-23 biennium were set at $20 million General Fund. $1.8 million General Fund was added to reimburse counties for costs to perform juvenile expunctions as required by SB 575 (2021).

Legislatively Approved Budget Update

The legislatively approved budget for Community Programs is $145 million total funds, an increase of $957,586 from the legislatively adopted budget. Changes to the budget include the transfer of a vacant permanent full-time positions from Community Programs to Program Support to enhance the agency's Diversity, Equity, and Inclusion Office, which has a net zero impact on the overall budget and increases for previously approved compensation plan adjustments.

Program Support

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	48,471,934	56,671,786	54,889,825	56,673,076
Other Funds	165,037	82,864	9,552,684	9,552,684
Federal Funds	1,580,086	1,956,479	1,888,897	1,949,011
Total Funds	**50,217,057**	**58,711,129**	**66,331,406**	**68,174,771**
Positions	133	132	137	139
FTE	133.00	132	136.15	138.15

Program Description

The Program Support unit is made of up the Director's Office, Development Services, and Business Services program areas. The Director's Office includes communications and government relations, internal audits, professional standards, and research and data analysis. Development Services coordinates the full range of services provided to youth in OYA's care, including education and vocational training, family engagement, treatment services, and the Youth Reformation System. Business Services provides agency-wide financial, human resources, information technology, and physical plant services. The operational costs of the statewide Juvenile Justice Information System (JJIS) are part of this budget, as are agency-wide costs that are not allocated to other programs, such as insurance premiums and attorney general costs.

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. Implementation of the JJIS Modernization project will occur during the 2021-23 biennium, adding additional expense and focus through the end of the biennium.

Legislatively Adopted Budget

The 2021-23 Program Support total funds budget of $66.3 million is 32.8% higher than the 2019-21 legislatively approved budget. The budget includes $7.9 million Other Funds expenditure limitation from proceeds of Article XI-Q bonds and $1.6 million Other Funds expenditure limitation from American Rescue Plan Act (ARPA) funds to move the JJIS modernization project through Stagegate 3. A total funds increase of $1 million and five positions (4.15 FTE) was also approved to implement the agency's diversity, equity, and inclusion priorities.

Legislatively Approved Budget Update

The legislatively approved budget for Program Support is $68 million total funds, an increase of $1.8 million from the legislatively adopted budget. Changes to the budget include the transfer of two vacant permanent full-time positions from Facilities and Community Programs to Program Support to enhance the agency's Diversity, Equity, and Inclusion Office, which has a net zero impact on the overall budget and adjustments for previously approved compensation plan changes.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	11,153,998	15,206,863	14,880,399	14,880,399
Other Funds	408,100	--	1,137,980	1,137,980
Total Funds	**11,562,098**	**15,206,863**	**16,018,379**	**16,018,379**

Program Description

OYA pays debt service on Article XI-Q bonds issued through the Department of Administrative Services. The 2021-23 budget includes $10.4 million General Fund for previously financed infrastructure and deferred maintenance needs in OYA's facilities and $4.5 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 payments on all certificates of participation and Article XI-Q bonds sold or approved to be sold for the agency. The Legislature approved $34.4 million in new debt obligations in 2019-21, and another $40.3 million in new bond authorization was approved for 2021-23. $32.5 million was provided for facilities improvements and $7.9 million for the JJIS Modernization project. Bond sales planned for October 2021, May 2022, and March 2023 will require an additional $4.5 million General Fund to make debt service payments in the 2021-23 biennium.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is set at a level to cover existing and new debt. The new debt service ($4.5 million General Fund) is associated with project work described in the following Capital Construction section and in the Program Support section for the JJIS Modernization project. Other Funds expenditure limitation for the cost of bond issuance is budgeted in the Facility Program ($1.2 million) and in Program Support for the JJIS project ($113,469).

Legislatively Approved Budget Update

There were no changes to the agency's budget for debt service.

Capital Improvements and Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,594,075	1,662,707	1,662,707	1,662,707
Other Funds	6,369,577	--	31,889,239	31,889,239
Total Funds	**7,963,652**	**1,662,707**	**33,551,946**	**33,551,946**

Program Description

This program area includes spending to support the agency's 90 buildings located throughout the state, which have an estimated $246.5 million replacement value. Capital Improvement covers expenditures for land and building improvements that cost more than $5,000 but less than $1 million and is supported with General Fund. 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 above display. Planning for future capital construction projects is also included in this category.

Budget Environment

The agency's newest youth correctional facilities were built 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 2021-23 legislatively adopted budget included $32.5 million in new Article XI-Q bond proceeds and $28.4 million in bond re-authorization for current and prior-biennia capital projects. Ongoing projects include:

- The West Cottages renovation project at the MacLaren Youth Corrections Facility in Woodburn.
- Renovation of four living units at the Rogue Valley YCF (Grants Pass).
- Deferred Maintenance and Capital Improvements across all facilities.
- Renovations to the medical and dental clinic at the Tillamook Youth Correctional Facility.

New capital construction 6-year expenditure limitation of $31.9 million was added for the following:

- Renovation of two living units and supporting spaces at Camp Riverbend.
- Capital improvements across all facilities.
- Two additional West Cottages at MacLaren.
- Renovation of two living units and supporting spaces at the Tillamook YCF.

Legislatively Approved Budget Update

There were no changes to the agency's budget for capital improvements or capital construction.

JUDICIAL BRANCH

JUDICIAL DEPARTMENT

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	521,726,139	544,357,972	585,357,211	626,674,030
Other Funds	128,103,433	46,331,498	174,808,269	281,646,988
Federal Funds	1,347,374	41,741,842	1,476,446	1,782,035
Total Funds	**651,203,946**	**633,907,758**	**761,641,926**	**910,103,053**
Positions	1,935	1,835	1,932	1,993
FTE	1,817,.22	1,804.06	1,881.09	1,919.92

Overview

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 Oregon Judicial Department .

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 to the Chief Justice. 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 Oregon Judicial Department is unique in many aspects. It has a decentralized structure of independently elected judges and, 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 is broadly organized into the following four areas:

- Court operations and administration: Judicial Compensation, Appellate and Tax Courts, Trial Courts, Mandated Payments, Administration and Central Support, Oregon eCourt Program, Third Party Collections, and State Court Facilities and Security Account.
- External Pass-Through Payments: state-funded payments to legal entities outside the operational, performance, and financial control of the department.
- Capital Improvement/Deferred Maintenance: capital project costs less than $1 million and for deferred maintenance.
- Capital Construction: state-owned building (Supreme Court Building) and Oregon Courthouse Capital Construction and Improvement Fund for a portion of county courthouse construction funding.
- Debt Service: payments on principal, interest, and financing costs associated with the issuance of certificates of participation and general obligation Article XI-Q bonds.

As a Judicial Branch agency, the department operates independently of the executive branch, which exercises no administrative, financial, or budgetary or control over department's budget. That responsibility falls solely to the Legislature. In addition, the Department is statutorily exempt from many statutes governing processes that apply to executive branch agencies, such as human resources, procurement, and information technology; however, the Department does try to maintain parity with executive branch statutory requirements. Lastly, like the Legislative Branch, Judicial Branch agencies are allowed to keep any unspent General Fund balances at the end of a biennium.

Revenue Sources and Relationships

The Judicial Department budget consists of 76.8% General Fund, 23% 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 88.1% of the remaining budget.

The Department is also responsible for the collection of certain money owed to the state. In general, collections are for crime victim restitution payments, compensatory fines, and other fines, costs, and assessments imposed by the court. The revenue collected includes an administrative fee to fund collections activities and 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.

In the 2021-23 biennium, the department is projected to generate an estimated $300 million in revenue from a variety of sources, including fines and forfeitures ($121 million), statutory court filing fees ($150.5 million), and individuals' contributions toward their public defense ($4.5 million). Compensatory fines and restitution, which are expected to total $24 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 revenue include the sale and distribution of court publications ($680,000); fees charged for public access to Oregon eCourt and the Oregon Judicial Information Network ($6.6 million); State Law Library assessment revenues ($3.5 million); fees charged for the interpreter and shorthand reporter certification programs; and various grants from other state, local, and federal agencies.

The majority of court-generated revenues are distributed to the General Fund ($138.8 million, or 46.3%), the Criminal Fine Account ($87.5 million, or 29.2%), and cities and counties ($36.8 million, or 12.3%). The department will retain approximately $7.6 million (or 2.5%), primarily for the State Court Technology Fund, which retains 8.9% 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 Commission to offset the General Fund cost of public defense eligibility verification staff in the department (22.70 FTE) and for operating expenses for public defense costs associated with court-mandated payments.

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. The Department is projected to carry forward approximately $7 million of General Fund from 2019-21 biennium.

Budget Environment

The Department has no control over the number of case filings it receives, which is compounded by legal restrictions on its ability to manage caseloads. 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 the Department has resides primarily in its ability to delay adjudication in civil case filings.

The Department's 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 legislatively adopted budget is $761.6 million total funds, including $585.4 million General Fund, $174.8 million Other Funds, and $1.5 million Federal Funds. The total funds budget is $110.4 million, or 17%, more than the 2019-21 legislatively approved budget. The budget includes 1,932 positions (1,888.09 FTE), which is 61 positions (31.83 FTE) higher than the previous level. The largest increases to the budget are related to capital construction funding for state and county-level construction projects:

- $96.7 million Other Funds for the Oregon Courthouse Capital Construction and Improvement Fund for state (Article XI-Q bonds) and local matching funds for four county courthouse projects in Benton, Linn, Crook, and Clackamas counties.
- $21.7 million Other Funds (Article XI-Q bonds) for continued funding of the Supreme Court Building Renovation.
- $5 million Other Funds (American Rescue Plan Act State Fiscal Recovery Funds) for non-bondable expenses associated with the Supreme Court Building Renovation.
- $3.7 million Other Funds (American Rescue Plan Act State Fiscal Recovery Funds) for the planning and costs associated with replacement of the Curry County Courthouse ($3.5 million) and for planning and costs associated with replacement of the Crook County Courthouse ($169,827).
- $950,000 Other Funds (State Court Facilities Security Account) for courthouse capital improvements at the Josephine ($700,000 Other Funds) and Klamath Falls County Courthouses ($250,000 Other Funds).

The budget also includes operational investments in various courts and court administration:

- $7.2 million Other Funds and 27 positions (25.00 FTE) for various collaborative agreements with other agencies and the expenditure of state grants.
- $3.3 million General Fund and 15 positions (15.00 FTE) for statewide data tracking and analysis of disparate outcomes and Equity, Diversity, and Inclusion training and support.
- $5.1 million General Fund reduction for a debt service adjustment.
- $3.3 million General Fund to backfill an Other Funds revenue shortfall in the Oregon eCourt Program.
- $2.2 million General Fund and three position (2.00 FTE) for supplemental information technology support.
- $1.9 million General Fund and 10 positions (8.80 FTE) to support individuals participating in the criminal adjudicatory process with behavioral health and/or substance abuse disorders.
- $1.6 million General Fund and eight positions (6.50 FTE) for two additional statutory circuit court judgeships in Deschutes County, including associated judicial staff.
- $702,683 General Fund and $933,772 Federal as Other Funds and nine position (7.44 FTE) for statewide child support for self-represented litigants.
- $1.2 million General Fund and eight positions (6.58 FTE) for one-time funding for the expungement of criminal records for marijuana offenses.
- $682,350 General Fund and three positions (2.50 FTE) for the juvenile delinquency improvement project.

Legislatively Approved Budget Update
The legislatively approved budget for the Judicial Department totals $910.1 million for the 2021-23 biennium. The budget is $148.5 million, or 19.5%, more than the 2021-23 legislatively adopted budget. The budget includes 1,993 positions (1,919.92 FTE), which is a 61 position (31.38 FTE) increase over the legislatively adopted budget. Major additions to the adopted budget included:

- $3.9 million General Fund and 40 positions (20.00 FTE) for expansion of the pretrial release program.
- $2.4 million General Fund and 15 positions (8.75 FTE) for the reorganization of the Office of the State Court Administrator.
- $762,623 General Fund and three positions (1.50 FTE) for family treatment courts.
- $337,000 General Fund, on a time-time basis, for the replacement of aging grand jury recording equipment.

- $275,752 in Federal Funds expenditure limitation, on a time-time basis, and two limited duration positions (1.00 FTE) for an Elder Justice Innovation grant.
- $113,700 and one permanent full-time Law Clerk (0.58 FTE) in the Tax Court to assist with the Corporate Activities Tax caseload.
- $4.4 million General Fund for 2019-21 unexpended General Fund carryforward.

Major investments in county-owned circuit court facilities included:
- $95.4 million Other Funds expenditure limitation for the Clackamas County Courthouse replacement project and funded by Article XI-Q general obligation bonds approved previously by the Legislature in 2021 (SB 5505, 2021).
- $8.9 million Other Funds expenditure limitation for supplemental funding of the Crook County Courthouse replacement project and funded by Article XI-Q general obligation bonds.
- $2 million General Fund, on a time-time basis, for planning for the replacement of the Benton County Courthouse.
- $2 million General Fund, on a time-time basis, for Columbia County Courthouse life safety and accessibility improvements.
- $1.5 million General Fund, on a time-time basis, for a Deschutes County Circuit Court renovation and expansion project.

Major investments distributed by the department included:
- $4.5 million General Fund for distribution to the Oregon State Bar to provide legal services to individuals with immigration matters (SB 1543).
- $2.3 million General Fund, on a time-time basis, for distribution to the Oregon State Bar for the OregonLaw+Connect information technology project.

Judicial Compensation

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	90,363,535	95,761,823	96,483,323	101,004,098
Total Funds	**90,363,535**	**95,761,823**	**96,486,323**	**101,004,098**
Positions	198	198	200	200
FTE	197.00	198.00	199.50	199.50

Program Description

The Judicial Compensation budget unit contains the personal services costs (salary plus other payroll expenses) of the 200 statutory judgeships authorized in Oregon, including 179 circuit court judges, one Tax Court judge, thirteen Court of Appeals judges, 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” 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.

Revenue Sources and Relationships

Statutory judgeships are funded with General Fund.

Budget Environment

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 those increases and adjustments 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 56% of salary. About half of the OPE total is to pay PERS contributions. A judge's retirement benefit is defined by statute and PERS operates a separate Judge Member Plan exclusively for judges to comply with ORS 238. The 2021-23 biennium contribution rate for this plan is 31.94% of salary, compared to a 17.13% PERS contribution rate for non-judge employees, though Judicial salaries are not impacted by Pension Obligation Bond payments as are those of state employees.

Legislatively Adopted Budget

The legislatively adopted budget of $96.5 million is $6.1 million, or 6.8%, more than the 2019-21 legislatively approved budget and includes 200 positions (199.50 FTE). The budget included $721,500 General Fund for two new statutory circuit court judgeships in the eleventh Judicial District and Deschutes County for a total of nine circuit court judges for the district (1.50 FTE). The judgeships were statutorily-established in HB 3011 (2021) and are slated to begin on January 1, 2022.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $101 million for the 2021-23 biennium. The budget is $4.5 million (or 4.7%) more than the 2021-23 legislatively adopted budget. The budget includes 200 positions (199.50 FTE) which is unchanged from the adopted budget.

Appellate and Tax Courts

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	24,053,363	27,216,846	27,422,004	27,810,780
Other Funds	2,932,629	3,224,742	3,224,742	3,306,970
Total Funds	**26,985,992**	**30,441,588**	**30,646,746**	**32,117,762**
Positions	101	100	101	102
FTE	98.52	97.52	98.52	99.10

Program Description

The Appellate and Tax Courts program includes the Oregon Supreme Court, Court of Appeals, Tax Court, and Appellate Commissioner's Office. 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 ($3.5 million) and publication sales revenue ($680,000).

Budget Environment

The following table contains historic case filing data for the Appellate and Tax courts. After 2015, the number of case filings for the Supreme Court and the Court of Appeals have decline to twelve-year lows. Case declines have also occurred in both divisions of the Tax Court. Those numbers partly reflect the decline in trial court and other government agency actions due to the pandemic.

Court-Type	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Supreme Court	925	923	952	977	890	820	944	846	899	874
Court of Appeals	2,936	2,909	2,652	2,565	2,598	2,815	2,768	3,063	3,340	2,112
Tax Court Regular Division	75	97	47	38	28	26	27	38	37	18
Tax Court Magistrate Division	1,309	884	579	469	547	410	396	411	363	406

Legislatively Adopted Budget

The legislatively adopted budget of $30.7 million is $3.7 million, or 13.6%, more than the 2019-21 legislatively approved budget and includes 101 positions (98.52 FTE). The budget included the addition of $205,158 General Fund and one Law Clerk position (1.00 FTE) to the Appellate Commissioner office.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $32.1 million for the 2021-23 biennium. The budget is $1.5 million, or 4.8%, more than the 2021-23 legislatively adopted budget. The budget includes 102 positions (99.10 FTE), which is one position (0.58 FTE) more than the legislatively adopted budget due to the addition of $113,700 to support a Law Clerk (0.58 FTE) in the Tax Court to assist with the Corporate Activities Tax caseload.

Trial Courts

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	251,249,400	278,289,154	284,006,712	299,344,579
Other Funds	13,896,404	5,850,276	12,446,757	12,948,421
Federal Funds	--	--	--	--
Total Funds	**265,145,804**	**284,139,430**	**296,453,469**	**312,293,000**
Positions	1,422	1,321	1,380	1,422
FTE	1,310.66	1,295,17	1,348.55	1,369.55

Program Description

Trial Court operations includes the funding and operations of all state trial courts or circuit courts. There are circuit courts in all 36 counties but 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, civil commitment, adoption, and guardianship cases. One circuit court, Multnomah, also operates as the municipal court for City of Portland parking violations. The program also includes staff who verify the eligibility of applicants for representation at public expense (Application/Contribution Program).

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 ($3.6 million), and grant funds supporting specialty court operations ($5.1 million).

Budget Environment

Due to the impact of COVID-19 In calendar year 2020, caseloads totaled 456,526 across ten major case-categories. This reduction is approximately 60% of the normal caseload that the department would experience during a normal year, caused in part to large declines in parking and violation cases. Pending cases took longer to process as courts moved most proceedings to remote means.

Cases per Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Civil	92,642	95,191	85,712	74,070	71,069	83,166	84,068	81,768	58,695
Small Claims	76,076	70,259	78,149	67,932	54,467	55,902	54,093	56,091	27,942
Domestic Relations	45,279	43,898	42,323	41,735	44,107	43,699	44,177	44,414	38,822
Felony	31,980	32,646	31,180	32,407	33,893	31,738	26,265	26,598	24,220
Misdemeanor	57,529	53,029	51,363	50,335	46,954	49,100	54,459	51,536	40,077
Violations	211,505	215,080	212,316	205,511	199,465	222,341	218,271	196,531	153,498
Juvenile	11,218	10,238	9,483	9,813	9,669	11,153	10,178	9,449	7,087
Multnomah Parking	238,123	255,188	242,904	257,154	236,154	234,761	271,796	238,514	87,081
Civil Commitments	9,459	9,582	8,619	8,512	8,300	7,710	7,243	7,084	7,871
Probate	10,196	10,642	10,553	11,312	11,492	12,178	11,860	9,926	11,228
Total	**783,830**	**797,044**	**777,399**	**763,440**	**715,560**	**751,746**	**782,428**	**721,911**	**456,526**

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 typical adjudicatory functions of the courts. The types of specialty courts that have been established include drug, driving under the influence (DUI), family, community, domestic violence, mental health, veterans, and early resolution.

Beginning with the 2019-21 biennium, the Legislature began 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 people charged with a crime who may have significant behavioral health issues.

Legislatively Adopted Budget

The legislatively adopted budget of $296.5 million is $31.3 million, or 11.8%, more than the 2019-21 legislatively approved budget and includes 1,380 positions (1,348.55 FTE). The budget includes the following:

- $1.4 million General Fund and nine positions (9.00 FTE) to produce and analyze data used to identify and track disparate outcomes in imposition and collection of fees and fines, pre-trial release, and other aspects of court decision-making and work.
- $1.9 million General Fund and 10 positions (8.80 FTE) were provided to continue implementation of SB 24 (2019) and SB 973 (2019) for support and services for people with serious mental illness and substance abuse issues.
- $5.1 million Other Funds and 18 limited duration positions (18.00 FTE) were provided to fund various specialty court grants, primarily those received by the Criminal Justice Commission.
- $2.2 million General Fund and 13 positions (9.71 FTE) for SB 48 and a statewide pre-trial release program. A budget note directs the department to report to the Legislature in 2022 on the implementation of SB 48.

- $1.5 million Other Funds and five permanent positions (5.00 FTE) were provided in conjunction with the opening of the new Multnomah County Courthouse for a free Legal Resource Center to assistance the public. Multnomah County has created an agreement with the Multnomah County Circuit Court to use the county's Law Library funding, provided by the state, to pay for staffing and operations of the resource center.
- $867,280 General Fund for three new positions for each newly established judgeship (5.00 FTE).
- $80,518 General Fund and one permanent position (0.50 FTE) for Lake County and Klamath County to share for information technology support.

The Legislature approved a $10 million special purpose appropriation to the Emergency Board for a statewide plan related to the expansion of family treatment courts and the department is one of six agencies responsible for reporting back to the Legislature in 2022.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $312.3 million for the 2021-23 biennium. The budget is $15.8 million, or 5.3%, more than the 2021-23 legislatively adopted budget. The budget includes 1,422 positions (1,369.55 FTE), which is 42 position (21.00 FTE) more than the legislatively adopted budget. Major investments included:

- $3.9 million General Fund and 40 positions (20.00 FTE) for expansion of the pretrial release program.
- $321,966 General Fund and 2 positions (1.00 FTE) for family treatment courts.

Mandated Payments

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	16,353,754	17,819,193	17,819,193	19,491,704
Other Funds	691,221	711,771	711,771	713,218
Total Funds	**17,044,975**	**18,530,964**	**18,530,964**	**20,204,922**
Positions	23	23	23	23
FTE	22.61	22.61	22.61	22.61

Program Description
The Mandated Payments program funds the federally and state-mandated ancillary services of providing trial and grand jurors, court interpreters, arbitration services, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation for litigants and the public.

Revenue Sources and Relationship
The Mandated Payments Program is primarily funded with General Fund but includes a relatively nominal amount of Other Funds revenue (3.8%) from juror fees and mileage donated back to the Department for jury improvement projects and from fees associated with interpreter certification.

Budget Environment
Demand for mandated services is a function of the volume and duration of cases heard by the courts. Approximately 55% of the budget supports interpreter services, 44% supports jury payments, with less than 1% supporting ADA compliance and arbitration expenses. Due to COVID-19 impacts, there was a large reduction in jury trials and the use of interpreters during the 2019-21 biennium.

Legislatively Adopted Budget
The legislatively adopted budget of $18.5 million is $1.5 million, or 8.7%, more than the 2019-21 legislatively approved budget and includes 23 positions (22.61 FTE). No major adjustments were made.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $20.2 million for the 2021-23 biennium. The budget is $1.7 million, or 9%, more than the 2021-23 legislatively adopted budget. The budget includes 23 positions (22.61 FTE) and which is unchanged from the adopted budget. The approved budget level is higher due largely to the addition of $1,484,640 General Fund from carryforward of 2019-21 unexpended General Fund.

Administration and Central Support

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	72,754,294	76,338,176	81,066,238	87,257,357
Other Funds	6,374,586	3,462,633	10,204,621	11,643,582
Federal Funds	1,374,374	1,476,446	1,476,466	1,782,035
Total Funds	**80,503,254**	**81,277,255**	**92,747,305**	**100,682,974**
Positions	157	159	194	212
FTE	154.43	156.76	184.91	195.16

Program Description
The Administration and Central Support program falls under the Office of the State Court Administrator (OSCA). OSCA supports and assists the Chief Justice of the Supreme Court in exercising administrative authority and supervision over the state's circuit, tax, and appellate courts, as well as establishing and managing statewide administrative policies and procedures. The State Court Administrator, who is appointed by the Chief Justice, is responsible for OSCA and the centralized administration of the Oregon courts system.

The Office of the State Court Administrator is divided into the following programs and divisions: (1) Juvenile and Family Court Programs; (2) Office of General Counsel; (3) Human Resource Services; (4) Executive Services; (5) Enterprise Technology Services; (6) Appellate Court Services; (7) Business and Fiscal Services; (8) Civil and Criminal Programs and (9) Judicial Marshal.

The State Court Administrator also provides management and oversight of the Citizens Review Board, interpreter and shorthand reporter certification programs, revenue management, the Supreme Court building, internal auditing, the administration of the Appellate Court Records Office, publications, and the State of Oregon Law Library.

Revenue Sources and Relationship
The program is primarily funded with General Fund, but includes the following Other Funds and Federal Funds revenue sources:

- Grant funds supporting two permanent Other Funds positions for Release Assistance Officers for Lane County ($0.6 million).
- Department of Human Services sends funding for the Citizen Review Board ($2.2 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 Program ($1.5 million).
- Criminal Fine Account funds used for business continuity, courthouse security, and courthouse improvements.

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. The Oregon 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 but also creates efficiencies in transferring documents and data to and from state agencies.

Legislatively Adopted Budget

The legislatively adopted budget of $92.8 million is $12.2 million, or 15.2%, more than the 2019-21 legislatively approved budget and includes 101 positions (98.52 FTE). The budget includes the following:

- $5 million Other Funds expenditure limitation for the Supreme Court Building Renovation and non-bondable expenses. The revenue source is the American Rescue Plan Act State Fiscal Recovery Funds received by the Oregon Department of Administrative Services and transferred to the Department.
- $2 million General Fund and two positions (1.00 FTE) and services and supplies to support Information technology within the department.
- $1.1 million General Fund and four permanent positions (4.00 FTE) produce and analyze data used to track disparate outcomes in imposition and collection of fees and fines, pre-trial release, and other aspects of court decision-making and work.
- $682,350 General Fund and three permanent positions (2.50 FTE) to support the Juvenile Delinquency Improvement Project.
- $702,683 General Fund, $933,772 Other Funds and nine positions (7.44 FTE) to provide centralized support for self-represented litigants seeking to navigate family law related to child support. The Other Funds are received as Title IV-D federal financial participation matching funds for Child Support transferred from the Oregon Department of Justice - Division of Child Support. Two of the nine position are ineligible for federal matching funds.
- $635,680 General Fund and two permanent positions (2.00 FTE) for human resources support related to equity, diversity and inclusion initiatives.
- $558,216 Other Funds and four limited duration positions (2.00 FTE) for an intergovernmental agreement to support base level information technology services for the Public Defense Services Commission for a period of one year or until June 30, 2022.
- $250,000 of Other Funds expenditure limitation, in one-time funding, for the cost of issuing general obligation bonds for the Supreme Court Building Renovation. The revenue source is from the bond proceeds.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $100.4 million for the 2021-23 biennium. The budget is $7.9 million, or 8.6%, more than the 2021-23 legislatively adopted budget. The budget includes 212 positions (195.16 FTE) and which is 18 position (10.25 FTE) more than the legislatively adopted budget. Major investments in the department include:

- $2.4 million General Fund and 15 permanent full-time positions (8.75 FTE) for the reorganization of the Office of the State Court Administrator.
- $440,657 General Fund and one permanent full-time position (.50 FTE) for support of family treatment courts.
- $756,039 General Fund for 2019-21 unexpended General Fund carryforward.
- $337,000 General Fund, on a time-time basis, for the replacement of aging grand jury recording equipment.
- $275,752 in Federal Funds expenditure limitation, on a time-time basis, and two limited duration (1.00 FTE) for an Elder Justice Innovation grant.
- $250,000 Other Funds expenditure limitation for Article XI-Q general obligation bond cost of issuance associated with the Supreme Court Building Renovation Project transferred from the Capital Construction to the Administration and Central Support Division.
- Transfer 2019-21 General Fund Carryforward savings for the Counsel on Court Procedures ($51,710) and debt service ($10,249) to the Administration and Central Support Division.

Oregon eCourt Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	4,268,723	4,805,672	8,105,672	8,250,884
Other Funds	19,623,760	21,287,058	17,987,058	18,469,655
Total Funds	**23,892,483**	**26,092,730**	**26,092,730**	**26,720,539**
Positions	30	30	30	30
FTE	30.00	30.00	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. 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; and provide electronic service and filing services. For the 2021-23 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.

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 2021-23 biennium, SCTF revenue is expected to be $7.6 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 2021-23 biennium, user fee revenue is expected to be $6.1 million.
- Transaction fees charged for online use of credit and debit cards are expected to generate $0.5 million.
- The 2021-23 allocation from the Criminal Fines Account is $3.9 million. In 2017, the Legislature increased presumptive fines by $5 to support court technology costs.

Budget Environment

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.

Legislatively Adopted Budget

The legislatively adopted budget of $26.1 million is $2.2 million, or 9.2%, more than the 2019-21 legislatively approved budget and includes 30 positions (30.00 FTE). The budget included a $3.3 million fund shift from Other to General Fund in response to a revenue shortfall in the State Court Technology Fund to adequately fund information technology contractual services.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $26.7 million for the 2021-23 biennium. The budget is $627,809, or 2.2%, more than the 2021-23 legislatively adopted budget. The only significant adjustment was the recognition of $145,212 General Fund from 2019-21 unexpended General Fund balances.

Third Party Collections

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	15,312,478	15,970,809	15,970,809	15,970,809
Total Funds	**15,312,478**	**15,970,809**	**15,970,809**	**15,970,809**

Program Description

The Third-Party Debt Collections program houses the cost of paying third-party debt collectors associated with the collection of fees, fines, and restitution. The types of expenditures in this appropriation include credit card fees, State Treasury charges for banking services, Department of Revenue fees, and private collection firm fees. The purpose of the program is to collect amounts owed to the state that are subject to collection by the Judicial Branch. In general, collections are for past-due crime victim restitution payments, compensatory fines, and other fines, costs, and assessments.

Revenue Sources and Relationships

This program is supported by the General Fund. During the 2021-23 biennium, the department will generate an estimated $266 million in revenue from fines, assessments, forfeitures, filing fees, and individuals' contributions toward their public defense. Third party collection activities will account for approximately 30% 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. The appropriations in recent biennia have been insufficient to cover collections costs and have resulted in the department using excess operations funding at the end of the biennium to cover collection costs and that otherwise would have carried over and been used by the operating divisions.

Budget Environment

Delinquent accounts move through a series of collection efforts as defined by the Department's centralized collection unit. In general, these steps include late payments notices (up to one year), referral of an account to the Department of Revenue (DOR) for collection (up to one year), and finally, referral to a private collections firm (up to two years or longer depending on collectability). The Department also works with DOR to intercept any state tax refunds.

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 funds are used for 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 collections on delinquent debt by the third-party debt collectors are forecast to total approximately $80.3 million during the 2021-23 biennium.

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. 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 the deduction of statutory obligations and administrative costs are distributed to the state or to local governments owed them.

Legislatively Adopted Budget

The legislatively adopted budget of $16 million is $658,331, or 4.3%, more than the 2019-21 legislatively approved budget. The program is a current service level budget.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $16 million for the 2021-23 biennium, which is unchanged from the 2021-23 legislatively adopted budget.

State Court Facilities and Security Account

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	6,772,828	7,205,362	8,155,362	8,200,910
Total Funds	**6,772,828**	**7,205,362**	**8,155,362**	**8,200,910**
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). By statute, account proceeds may be used to provide: (1) development or implementation of the plan for state court security emergency preparedness, business continuity, and physical 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).; (2) statewide training on state court security; (3) distributions to court facilities security accounts in each county; and (4) capital improvements for courthouses and other state court facilities.

Revenue Sources and Relationships

SCFSA is supported by an allocation from the state's Criminal Fines Account. The account is expected to have an ending balance equal to approximately one month of expenditures.

Budget Environment

In 2011, the Legislature expanded the use of the SCFSA 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. Courthouse capital improvements do not have a recurring allocation, rather specific project requests are funded as determined by the Legislature.

Legislatively Adopted Budget

The legislatively adopted budget of $8.2 million is $1.4 million, or 20.4%, more than the 2019-21 legislatively approved budget and includes four positions (4.00 FTE). Other Funds was added to fund safety and security capital improvements at the Josephine County Courthouse ($700,000) and the Klamath Falls County Courthouse ($250,000).

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $8.2 million for the 2021-23 biennium. The budget is $145,548 more than the 2021-23 legislatively adopted budget.

External Pass-Throughs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	28,095,492	28,156,299	28,156,299	40,490,499
Other Funds	--	--	3,669,827	3,669,827
Total Funds	**28,095,492**	**28,156,299**	**31,826,126**	**44,160,326**

Program Description

The External Pass-Through program is responsible for state-funded pass-through payments for: (1) counties operating law libraries or providing law library services; (2) county mediation and conciliation programs in circuit courts; (3) the Oregon Law Commission; (4) Council on Court Procedures; and (5) and Legal Services Program

("Legal Aid"). For 2019-21, the Legislature added a one-time pass-through to Benton County for a county courthouse construction project.

Revenue Sources and Relationship

The External Pass-Through program is funded with General Fund. Funding for county law libraries and county mediation and conciliation programs is distributed to counties. Funding for the Oregon Law Commission is distributed to the University of Oregon Law School. Funding of the Council on Court Procedures is distributed to the Council. Funding for the Legal Services Program is distributed to the Oregon State Bar.

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. All programs that had been financed from dedicated fees, including county law libraries, mediation/conciliation services, and Legal Services, were provided equivalent General Fund after the dedicated fees were eliminated. Two other programs, the Oregon Law Commission and the Council on Court Procedures continue to be funded with General Fund, but whose payments were consolidated under the Department and within this program.

The General Fund appropriation within this program is transferred to eligible entities and with that passes the fiduciary responsibility for the expenditure of the funds to recipient entities as well as the tracking of performance and outcomes. By statute, counties may move a portion of their law library funds to support mediation and conciliation services; however, this is done outside the Department's budget process for distributing funding to counites.

External Pass-Through Payments	2011-13	2013-15	2015-17	2017-19	2019-21	2021-23
Legal Services Program	$11,900,000	$11,900,000	$12,700,000	$11,900,000	$12,257,000	$12,784,050
Counties law libraries	$7,141,000	$7,104,198	$7,428,756	$7,135,000	$6,283,170	$7,492,047
County conciliation and mediation services in circuit courts	$7,141,000	$7,104,198	$7,423,755	$7,135,000	$7,183,170	$7,492,047
Oregon Law Commission	$223,000	$221,210	$331,319	$318,307	$320,422	$334,221
Council on Court Procedures	$52,000	$51,220	$53,560	$51,372	$51,710	$53,934
Total	$26,457,000	$26,380,826	$27,937,390	$26,539,679	$26,095,472	$28,156,299

Legislatively Adopted Budget

The legislatively adopted budget of $31.8 million is $3.7, or 13.3%, more than the 2019-21 legislatively approved budget. $3.5 million Other Funds (ARPA) was added for planning costs associated with replacement of the Curry County Courthouse. $169,827 Other Funds (ARPA) was added for planning costs associated with replacement of the Crook County Courthouse. The revenue source for both is the American Rescue Plan Act State Fiscal Recovery Funds received by the Oregon Department of Administrative Services and transferred to OJD.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $44.2 million for the 2021-23 biennium. The budget is $12.3 million, or 38.6%, more than the 2021-23 legislatively adopted budget:

- $4.5 million General Fund for distribution to the Oregon State Bar to provide legal services to individuals with immigration matters (SB 1543).

- $2.3 million General Fund, on a one-time basis, for distribution to the OSB for the OregonLaw+Connect information technology project.
- $2 million General Fund, on a time-time basis, for planning for the replacement of the Benton County Courthouse.
- $2 million General Fund, on a time-time basis, for Columbia County Courthouse life safety and accessibility improvements.
- $1.5 million General Fund, on a time-time basis, for a Deschutes County Circuit Court renovation and expansion project.
- $51,710 General Fund for 2019-21 unexpended General Fund carryforward and which was subsequently transferred to the Administration program.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	36,320,000	--	21,700,000	21,450,000
Total Funds	**36,320,000**	**--**	**21,700,000**	**21,450,000**

<u>Program Description</u>
This program includes capital construction expenditures for 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.

<u>Revenue Sources and Relationships</u>
Other Funds are provided by proceeds of the sale of Article XI-Q general obligation bonds. Debt service for authorized Article XI-Q general obligation bonds is budgeted under the Department's Debt Service program. Expenditure limitation provided for capital construction projects is good for six years, as opposed to the normal two years, due to the time required to complete such projects. Every new budget cycle previously approved capital construction expenditure limitation is removed from the budget, which can cause large swings in reported funding levels biennium to biennium.

<u>Budget Environment</u>
The Department is currently renovating the Supreme Court Building. The total cost for temporarily moving the Supreme Court and staff, and for modernizing and seismically protecting the structure is currently estimated to be $62.9 million to complete this large construction project.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget provided $21.7 million Other Funds Capital Construction six-year expenditure limitation for continued funding of the Supreme Court Building Renovation project.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for the division included a technical adjustment to move $250,000 Other Funds expenditure limitation to transfer the cost of issuing bonds associated with the Supreme Court Building Renovation Project from the Capital Construction program to the Administration and Central Support Division.

Oregon Courthouse Capital Construction and Improvement Fund

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	--
Other Funds	32,060,000	--	96,708,131	200,969,835
Total Funds	**32,060,000**	**--**	**96,708,131**	**200,969,835**

Program Description

Counties are by law responsible to provide suitable and sufficient court facilities for the statewide operation of the circuit courts. This legal responsibility continued when the State of Oregon assumed responsibility for the operating costs of courts and providing indigent defense. In 2013, however, the Legislature established the Oregon Courthouse Capital Construction and Improvement Fund (OCCCIF) to be used to assist counties in replacing county-owned courthouse facilities housing the state's circuit courts. The OCCCIF is intended to "… be used solely to finance costs related to acquiring, constructing, remodeling, repairing, equipping or furnishing land, improvements, courthouses or portions of courthouses that are owned by or operated by the State of Oregon." Under current practice, new state-supported courthouses continue to be owned by counties but are operated by the state under no-cost lease agreements. Costs for locating any county offices in the new facility, including district attorney offices, are the responsibility of the county. State and local funding may also be used to pay for furniture, fixtures, and equipment.

Revenue Sources and Relationships

Revenue for the OCCCIF comes from state Article XI-Q general obligation bond proceeds and required county matching funds. State 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. Debt service for authorized Article XI-Q general obligation bonds is budgeted under the Department's Debt Service program.

Budget Environment

As of the 2021-23 biennium, the OCCCIF has provided $142.4 million of Article XI-Q bond proceeds for the Multnomah County Courthouse replacement project, and $6.5 million for a new Jefferson County Courthouse. Additionally, during the 2019-21 biennium, $2.62 million of Article XI-Q bonding was issued for the Department's furniture, fixtures, and equipment for the new Multnomah courthouse.

Legislatively Adopted Budget

The legislatively adopted budget of $96.7 million is $64.7 million, or 201.6%, more than the 2019-21 legislatively approved budget. The budget included the following:

- $41.1 million Other Funds for the Benton County Courthouse, including $20.7 million (Article XI-Q bonds) of state matching funds and $20.4 million of local matching funds.
- $32 million Other Funds for the Linn County Courthouse, including $16.1 million (Article XI-Q bonds) of state matching funds and $15.9 million of local matching funds.
- $23.6 million Other Funds for the Crook County Courthouse, including $11.9 million (Article XI-Q bonds) of state matching funds and $11.7 million of local matching funds.
- $2 Other Funds placeholder for the Clackamas County Courthouse, with a budget note directing a report on the county's proposed public-private partnership agreement.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $206.5 million for the 2021-23 biennium. The budget is $104.0million, or 107.3%, more than the 2021-23 legislatively adopted budget. Major investments in county-owned circuit court facilities included:

- $95.4 million Other Funds expenditure limitation for the Clackamas County Courthouse replacement project and funded by Article XI-Q general obligation bonds approved previously by the Legislature in 2021 (SB 5505, 2021).
- $8.9 million Other Funds expenditure limitation for supplemental funding of the Crook County Courthouse replacement project and funded by Article XI-Q general obligation bonds.
- Re-establishment of a 2019-21 biennium $2 million General Fund appropriation, on a time-time basis, for planning for the replacement of the Benton County Courthouse as a result of a 2019-21 unexpended General Fund carryforward.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	19,273,100	46,331,498	26,326,961	26,053,320
Other Funds	9,432,005	--	--	274,570
Total Funds	**28,705,105**	**46,331,498**	**26,326,961**	**26,327,890**

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 to finance the development and implementation of the Oregon eCourt system, grants to counties through the Oregon Courthouse Capital Construction and Improvement Fund, and capital construction projects for the Supreme Court building.

Revenue Sources and Relationships

The Department's debt service is funded with General Fund, although interest earnings on bond proceeds may be used, if available.

Budget Environment

Until the 2013-15 biennium, the Department's debt service was related exclusively to the Oregon eCourt Program. Debt service related to the Oregon eCourt Program will be fully retired in Spring 2022. Beginning in 2015-17, debt service was provided to support of county courthouse capital projects funded through the Oregon Courthouse Capital Construction and Improvement Fund and to fund the Oregon Supreme Court Building renovation.

Legislatively Adopted Budget

The legislatively adopted budget of $26.3 million is $2.4 million, or 8.3%, less than the 2019-21 legislatively approved budget. The budget included the following:

- $14.9 million General Fund debt service reduction due to Lane and Linn counties not having the matching funds necessary for a bond sale during the 2019-21 biennium as previously approved. Subsequently, the General Fund debt service expenditures have been reduced as follows: $12,588,289 for the Lane County Courthouse and $2,304,257 for the Linn County Courthouse.
- Although $171.3 million of new Article XI-Q bonds are authorized in the 2021-23 biennium budget for 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 2023. Debt service costs on the new bonds are estimated to be approximately $23.4 million General Fund in the 2023-25 biennium.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $26.3 million for the 2021-23 biennium. The budget is $929 more than the 2021-23 legislatively adopted budget due to technical adjustments.

COMMISSION ON JUDICIAL FITNESS AND DISABILITY

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	$290,001	$306,164	289,807	$330,449
Total Funds	**$290,001**	**$306,164**	**$289,807**	**$330,449**
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. 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 judgeships: justices of the peace (32), circuit court judges (177), appellate court judges (20), Tax Court Judge (1), Tax Court Magistrate (3), temporary or pro-tem judges (± 120), judicial referees (± 39), and senior or “Plan B” semi-retired judges (± 55). In total, the Commission’s current jurisdiction extends to approximately 400 judges. The Commission does not have jurisdiction over municipal court judges, arbitrators, administrative law judges, or federal judges. For complaints that are filed outside the jurisdiction of the Commission, the complainant is referred to the proper state or federal agency with jurisdiction over the conduct (e.g., Oregon Government Ethics Commission).

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.

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. Over the last nine calendar years from 2012 to 2020, the Commission has averaged per year 136 complaint filings, 1.3 investigations, and 0.7 prosecutions per year.

Apart from misconduct investigations, statute provides a different course when a judicial disability is at issue. "Disability" means a physical or mental condition of a judge, including but not limited to impairment derived in whole or in part from habitual or excessive use of intoxicants, drugs or controlled substances, that significantly interferes with the capacity of the judge to perform judicial duties. A disability may be permanent or temporary. 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. Statute allows for an informal disposition agreement for the subject judge to obtain professional counseling, medical treatment or other assistance or to comply with other conditions in respect to the future conduct of the judge. If an informal disposition is entered into, the Chief Justice may grant the subject judge a leave of absence with salary for a period of not more than one year.

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 any investigation or prosecution costs.

Budget Environment

Although considered a Judicial Branch agency, the Commission operates independent of the Chief Justice and the rest of the Judicial Branch. Neither the Judicial nor the Executive Branch makes recommendations or exercises budgetary control over Commission's budget. 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 OJD and are provided 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 an approved budget for extraordinary expense with the understanding that the Commission may return to the Emergency Board or the Legislature if extraordinary expenses exceed the available budget. In the 2015-17 biennium the Legislature added $224,752 General Fund for extraordinary expenses related to two cases.

Legislatively Adopted Budget

The legislatively adopted for the Commission totals $289,807 General Fund and include one permanent part-time position (0.50 FTE). Funding, in the amount of $20,073, is included for extraordinary expenses related to the investigation and prosecution of complaints. The budget is $194 (or 0.1%) less than the 2019-21 legislatively approved budget, which equates to a current service level budget.

Legislatively Approved Budget Update

The legislatively approved budget for the Commission on Judicial Fitness and Disability totals is $330,499 for the 2021-23 biennium. Funding, in the amount of $29,689, is included for extraordinary expenses related to the investigation and prosecution of complaints. The overall budget is $40,692 (or 14%) more than the 2021-23 legislatively adopted budget. Major budget adjustments include:

- $21,617 General Fund for 2019-21 unexpended General Fund carryforward, of which $12,001 was related to administrative or operational costs and $9,616 is attributable to unutilized extraordinary costs.
- $15,000 of General Fund on a time-time basis, to resolve an underfunding Other Payroll Expenses for the Commission's executive director position.

PUBLIC DEFENSE SERVICES COMMISSION

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	353,399,570	396,803,692	321,184,175	337,439,650
Other Funds	13,679,662	4,449,667	18,449,667	18,449,667
Total Funds	**$367,079,232**	**$401,253,359**	**$339,633,842**	**$355,889,317**
Positions	90	79	108	113
FTE	86.47	78.80	104.72	107.56

Overview

The Public Defense Services Commission (PDSC) was established as an independent state agency in 2001 with the combination of the state Public Defender office, which provided appellate representation, and the trial court representation function, which had been a division within Oregon Judicial Department (OJD). In 1981, prior to the establishment of PDSC, the Legislature transferred the cost of trial-level public defense services from counties to the state under OJD, effective in 1983. This transfer was contemporaneous with the transfer of the administrative cost of the state court system from counties to the state. Prior to 1983, trial level public defense (and Oregon trial courts) was a local government responsibility.

Commission members are appointed by the Chief Justice of the Oregon Supreme Court, who may serve on the Commission as an ex-officio member. The Chief Justice also appoints the chair and vice-chair of the Commission, each of which serve two-year terms and may be reappointed. Membership of the Commission was expanded by the Legislature in 2021 from seven to nine members. 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.” Day-to-day operations are carried out by a Commission-appointed executive director who is responsible for hiring and managing agency staff.

Eligible persons are entitled to adequate legal representation in state 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 constitutional and statutory 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 also held that the right to appointed counsel includes related costs such as expert witnesses and investigation expense. City and county governments are responsible for providing public defense in municipal and justice courts, respectively.

Oregon statute broadly defines who is financially eligible for public defense. 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, 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.

As an independent agency within the Judicial Branch of government, PDSC operates with uncommon autonomy. The Executive Branch makes no recommendations and exercises no budgetary control over PDSC’s budget since the Commission resides in a separate branch of government. The Chief Justice also makes no recommendation and exercises no budgetary control over the Commission because the Judicial Branch does not have a unified budget like the Executive Branch. In other words, neither the Chief Justice nor the Governor reviews or approves the Commission's recommended budget nor monitors PDSC's expenditures or business practices. Additionally, PDSC is statutorily exempt from many common statutes governing operations that apply to Executive Branch agencies, such as human resources, procurement, and information technology. Under the current statutory construct the oversight responsibility for PDSC falls to the Legislature.

Revenue Sources and Relationships

PDSC is primarily supported by General Fund (95%). Other Fund revenues include $14 million Federal as Other Funds from Title IV-E moneys as reimbursement from the Department of Human Services and $4.4 million Other Funds Application Contribution Program (ACP) from defendants for the payment of administrative costs of determining their eligibility and a "contribution amount" toward the anticipated cost of their state defense.

Budget Environment

Oregon has a constitutional obligation to provide counsel for eligible persons and to provide for timely adjudication. PDSC has no legal authority to control the number of public defense cases the agency receives nor does PDSC have the authority to prioritize case-types. The demand for public defense services is influenced by many factors, including, for example, demographic, economic, statutory, law enforcement, prosecutorial, judicial, funding, as well as the decision-making of the agency. "Local practices" by law enforcement, district attorneys and circuit court judges also impact jurisdictionally the demand for public defense.

Demographic factors include population size, age, income distribution, and rate and types of crime. The state of the economy affects the number of people who are financially eligible for public defense services and may affect the level of resources available to local and state law enforcement, the prosecution, juvenile departments, local and state mental health and alcohol/drug treatment programs, the court system, local and state parole and probation services, as well as jail and prison space. Public defense is also impacted by changes in state and federal law and federal and state court decisions. Federal requirements in juvenile abuse and neglect matters have increased the number of hearings and the complexity of these cases, also adding to public defense costs.

For example, when law enforcement is reduced or expanded because of economic conditions, the number of arrests and prosecutions can change. Locally-elected district attorneys are responsible for making prosecutorial charging decisions and can prioritize, by seriousness, the type and number of cases that are filed. Circuit courts can make docketing decisions that impact the timing of a case. Circuit courts have the ability to postpone cases due to a temporary lack of public defense representation, which increases the pending court backlog of cases. Increased case backlogs reduce the court's ability to process its docket of cases, which may result in an increased number of offenders who fail to appear on deferred cases once cases are scheduled for a court hearing. Inadequate funding of the court system may result in reduced hours of operation or court closures, which can result in violation of a defendant's constitutional right to a speedy trial and the dismissal of the case. There can be a deleterious effect on community public safety when an offender avoids prosecution by having their case postponed or dismissed.

PDSC trial-level caseloads, including juvenile cases, average 172,322 cases per fiscal year and there are 347 appellate-level cases on average per fiscal year (2011 to 2019). Most public defense cases at both the trial and appellate levels are criminal in nature. PDSC reports having approximately 100 pending death penalty cases with a continuing, multi-biennia trend of fewer cases being filed. Capital punishment in Oregon has effectively ended due to changes in law and what is now a decades-long governor's moratorium on executions, which began under Governor Kitzhaber and continued through Governor Brown's administration.

Caseload numbers do not correlate directly to costs. There are "inexpensive" cases and "expensive" cases. For example, initial dependency filings cost more than most felonies and termination of parental rights cases cost more than Ballot Measure 11 felony cases. Cases continue to become more complex due to the growth in mental health and substance abuse disorders, the added complexity and time commitment of specialty courts, an increased emphasis on juvenile dependency representation, law enforcement body cameras, grand jury recordation, and new forensic technology applied to both new and old cases.

For Oregon, approximately 98% of public defense at the trial court level is accomplished primarily through a state-funded and state-administered competitive contracting system ("community-based public defense"). The Commission contracts based upon available resources, with a variety of independent contractors, including nonprofit public defender offices, consortia of attorneys or law firms, private law firms, or individual attorneys for legal services. The independent contractor model means that PDSC has a limited ability to exert control over the method and means by which services are provided. 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-contract hourly paid attorneys are used to augment both trial and appellate level caseloads for specific categories of cases or on a case-by-case basis.

Oregon's public defense system is one of the most studied components of Oregon's criminal, juvenile, and civil commitment justice systems. There have been no less than 20 studies and reports on public defense services since the transfer of responsibility for public defense to the state in 1983. Studies were conducted by the Judicial Department, the Criminal Justice Council, the Legislature, the Oregon State Bar Association, American Bar Association (ABA), the federal government and PDSC itself. Recent studies funded by the Legislature include a Sixth Amendment Center study and an ABA/Moss Adams study, with the later purpose to update the 1973 caseload standards. The ABA/Moss Adams study, released in January 2022, found that Oregon, based on a total of 95,473 annual caseloads, which includes both adult criminal cases (75,588) and juvenile cases (19,885), has a deficiency of 1,296 contract full-time equivalent (FTE) public defenders, which, if accurate, means that Oregon has only 31% (592.00 FTE) of the attorneys needed for public defense.

In January 2019, the Sixth Amendment Center released the findings of its review of Oregon's indigent public defense system. The study found multiple issues with the case credit model and called for its abolishment. The state's method of contracting for public defense services, a fixed fee per case model, did not meet constitutional standards. The contract model was based on case credits that valued work based on a level of punishment the crime carried. The case credits model paid most contractors a fixed fee per case without regard to how much or how little time the case requires of the attorney thereby "...pits appointed lawyers' financial self-interest against the due process rights of their clients..." The model was reported to be overly complex, missing a fundamental understanding of individual attorney workloads, and lacking in basic oversight to assure that constitutional standards of representation were being met. The study also found that contracts should account for provider overhead costs. The study found that the Commission did not adhere to national standards for commission member representation and more importantly that the Commission lacked to the necessary statutory scope to ensure effective assistance of counsel throughout the state. In addition, the study found an absence of policies and procedures and the few that did exist were not being followed by the agency

In September 2020, and in response to the Sixth Amendment Center study, PDSC approved a new contracting model that was implemented for contracts that took effect January 1, 2021. New contracts are based on the number of attorneys and support staff required to handle the projected caseload. The agency began paying a single statewide rate for each full-time equivalent attorney and each support staff (or fraction thereof), and a regionally adjusted rate for administrative costs. There are capped limits on the number of cases an attorney can be assigned. While the Commission directed that the agency (i.e., the Office of Public Defense Services) implement the new contracting model in a budget neutral manner, implementation of the new contract model proved significantly more costly than the old contract model.

PDSC proved ill prepared to implement the new contract model after a series of contract extensions and had difficulty reconciling the prior and the new contracts. The implications of the new contract model and the model's impact have yet-to-be fully understood and may have produced many unintended consequences. Complaints began arising as the new model became better understood by contract providers. Such complains included lack of sufficient contract funding for managers/supervisory staff, investigators, training costs; some contractors having to exceeding of case caps; some contractors not accepting new cases above contract caps; and the disparity of contract terms between contractors.

The public defense system is suffering from a shortage of attorneys qualified to handle felonies in mostly, larger urban counties. The new contract model does not appear to have had a meaningful impact on reversing the turnover in public defense attorneys. Additionally, the new model does not fully address pay parity (or disparity) between contract providers and state and/or county-employed attorneys, such as those employed by PDSC or the Department of Justice or district attorney offices (e.g. deputy district attorneys). Competitive rates of pay for interpreters and investigators has also been an issue with an effort being undertaken to align interpreter rates of pay with those of OJD. PDSC has since moved to yet another contracting model beginning on July 1, 2023 in an effort to begin to redress some of these concerns.

More broadly, Oregon's public defense system, and PDSC specifically, is experiencing a convergence or re-convergence of long-standing systemic challenges, which have only been exacerbated by the COVID-19 pandemic. Many of these issues are not unique to Oregon. In fact, the U.S. Congress is considering federal legislation related to resolving certain public defense issues through a grant program, public defender training, and enhanced student loan repayment. Some of the major issues facing Oregon are:

- Governance Issues: loss of confidence in the governance, management, financial management, and administration of the agency.
- Fiduciary Issues: absence of standard state agency practices around procurement, financial and fiduciary controls, budgeting, accounts payable, internal audit, human resource management, information technology, and performance management, including data management and quality control standards.
- Legacy Issues: rates of pay for public defense contractors; outdated caseload standards and attorney caseloads that exceeds national standards; lack of public defense attorney capacity; retention of experienced public defenders; unreimbursed costs of public defense organizations (i.e., management, administration, information technology, training, etc.); below market compensation for private hourly-paid attorneys and investigators; and difficulty hiring qualified attorneys.

These issues are compounded by the emergence of exogenous factors due to the COVID-19 pandemic, economic, legal, criminal, and defense challenges. The COVID-19 pandemic has not only resulted in an increase in the filing of state habeas petitions, but courts have had to slow the processing of criminal cases thereby increasing case backlogs. Economic factors, such as inflation, are above the growth rate(s) in contract amounts and there is also increased private and public sector competition for attorneys in other practices of law. Competition for attorneys in the public sector is due to the hiring of state attorneys for juvenile dependency, which may have depleted the pool of attorneys available to the provider community. Legal changes include the U.S. Supreme Court ruling in Ramos v. Louisiana that the Sixth Amendment to the U.S. Constitution (rights related to criminal prosecutions) requires that guilty verdicts for criminal jury trials be unanimous.

Rates of serious crime, and therefore public defense caseloads, have been on the increase. Public defense has also become more complicated with a population more challenged by mental health, addiction, and housing issues, as well as the fact that cases are becoming more technically complex and taking longer to settle due to police body camera footage and advances in forensic science, for example. Such changes impact not only felony, but also misdemeanor cases. These factors have resulted in increasing concerns about public defender caseloads and ethical standards related to accepting cases in excess of caseload standards. These factors, when combined, have led to an acute shortage of trial-level criminal defense attorneys for felony cases. The shortage can be viewed as both the retention of public defenders in the system as well as the entry of new attorneys into the field of public defense. The other complicating factor may be the transition of public defenders from one provider and/or geographic location to another public defense provider.

Late in 2021, and beginning in 2022, concerns arose with circuit court judges in larger judicial districts related to a growing backlog of unrepresented clients, both those in and out of custody, and in violation of a defendant's constitutional right to counsel and timely adjudication. In response, the Chief Justice of the Oregon Supreme Court, the Governor, and legislative leadership met to review an emergency procurement plan developed by PDSC to address the issue. The Legislature in 2022 adopted the plan and appropriated $12.8 million General Fund, on a one-time basis, for the procurement of indigent defense counsel in Multnomah, Washington, Marion, and Lane counties and to address the current backlog of unrepresented clients in the four counties and provide increased attorney capacity for the remainder of the biennium. After the conclusion of the February session in 2022, a legislative workgroup was tasked with reviewing the public defense system and making recommendations on the restructuring PDSC and resolving the backlog of unrepresented clients.

Legislatively Adopted Budget

The budget for the Public Defense Services Commission is $339.6 million total funds, including $321.2 million General Fund and $18.5 million Other Funds. The total funds budget is $27.5 million, or 7.5%, less than the 2019-21 legislatively approved budget. The budget includes 108 positions (104.72 FTE), which is 18 positions (18.25 FTE) more than the prior biennium. The Commission's 2021-23 budget, excluding a $100 million General Fund holdback, would represent a $75.6 million, or 19.8%, increase from the 2019-21 legislatively approved budget. The Commission's 2021-23 budget, excluding the General Fund holdback, represents a $84.2 million, or 23.6%, increase from the 2019-21 legislatively approved budget and a $38.6 million increase to the Commission's 2021-23 current service level budget.

The 2021-23 adopted budget included a $100 million General Fund special purpose appropriation (SPA) to the Emergency Board. The SPA was related exclusively to the agency's current service level funding and no provision was made for enhanced programmatic funding. The SPA reduced only select appropriations so as to not impede PDSC's modernization efforts. The release of the holdback is contingent upon the Commission's satisfactory progress, as determined by the Legislature and/or the Legislative Emergency Board, addressing the numerous issues facing the agency. The SPA was accompanied by a budget note requiring PDSC to the Legislature and Emergency Board on the agency's restructuring and modernization efforts.

Key investments funded by the Legislature to modernize the agency included the following:

- $22.9 million General Fund to resolve a current service level deficit in the Juvenile procurements.
- $14 million fund shift from General to Federal as Other Funds transferred from the Department to Human Services for Title IV-E funding for Parent Child Representation Program (PCRP).
- $10.4 million General Fund to resolve a current service level deficit in PCRP procurements.
- $1.9 million General Fund and seven positions (5.51 FTE) to establish a Compliance and Research Function.
- $1.1 million General Fund and four positions (2.89 FTE) to insource base level information technology.
- $905,645 General Fund to resolve a current service level deficit in the Criminal Trial procurements.
- $806,160 General Fund and four positions (3.88 FTE) to augment core financial management activities.
- $765,230 General Fund and two positions (1.88 FTE) for the Executive Divisions staffing, including the establishment of a Deputy Director position.
- $537,674 General Fund and two positions (1.76 FTE) to establish an internal audit function.
- $408,925 General Fund to resolve a current service level deficit in the Appellate Division.
- $350,000 General Fund for an independent external financial and performance audit of the agency.

PDSC was also directed to work with OJD, Department of Justice, Department of Human Services, Criminal Justice Commission, and the Housing and Community Services Department on a joint report on the criteria and need for the establishment of a statewide Family Treatment Court program. This budget note is directly related to the uncoordinated roll-out of the PDSC's Parent Child Representation Program with OJD's Family Treatment Courts, among other legislative investments.

Legislatively Approved Budget Update

The legislatively approved budget for PDSC totals is $355.9 million for the 2021-23 biennium. The budget is $16.3 million, or 4.8%, more than the 2021-23 legislatively adopted budget. The budget includes 113 positions (107.56 FTE), which is a five position (2.84 FTE) increase over the legislatively adopted budget. The $100 million special purpose appropriation approved by the Legislature in 2021 remained unchanged. Major additions included:

- $12.8 million General Fund, on a one-time basis, for the procurement of indigent defense counsel in Multnomah, Washington, Marion, and Lane counties and to address the current backlog of unrepresented clients in the four counties and provide increased attorney capacity for the remainder of the biennium.
- $743,588 General Fund, on a one-time basis, and two limited duration positions (1.26 FTE) for the re-initiation of the planning phase of the Financial and Case Management information technology project.
- $380,436 General Fund and one limited duration full-time position (0.50 FTE) to implement SB 578 (2021) for the payment of private counsel.
- $259,969 General Fund and one permanent full-time position (0.58 FTE) for the Appellate Division, Juvenile Appellate Section, to support caseload growth.
- $195,833 General Fund and one permanent full-time position (0.50 FTE) for family treatment court coordinating committee representative.
- $269,368 General Fund for 2019-21 unexpended General Fund carryforward.

Executive Division

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	3,600,361	3,743,464
Total Funds	**--**	**--**	**$3,600,361**	**$3,743,464**
Positions	--	--	8	8
FTE	**--**	--	7.88	7.88

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Executive Division was established at the direction of the Legislature to provide a structure for the governance and executive leadership of the agency under the Commission. The division is organized into the following sections: (1) Administration; (2) Office of the General Counsel; and (3) Communications and Legislative Affairs. The nine-member commission is part of this division.

The Office of General Counsel provides in-house legal advice to the Commission and the agency, establishes policies and procedures, performs quality assurance assessments of providers in each judicial district, receives and coordinates the handling of complaints regarding expenditures and the quality of legal representation, and reviews certificates of attorney qualifications; however, the office now requires reconstitution, as the Office's scope and mission have changed based upon the Legislature's establishment of the Compliance, Audit and Performance Division (discussed below).

Revenue Sources and Relationships
The Executive Division is supported by General Fund.

Budget Environment
The governance and executive leadership functions of the agency were previously under the former Contract and Business Services Division. A key legislative investment during the 2021 legislative session was the establishment of an agency-wide deputy director position to manage, coordinate, and oversee the operations of the agency.

The Chief Justice of the Oregon Supreme Court administratively directed that for any new courthouse construction, public defenders are to be provided some meeting space in the courthouse. State bond proceeds may pay up to one-half of allowable county courthouse project costs, if the facility provides space to other state agencies, such as PDSC ("colocation"); otherwise, state funding cannot exceed one-quarter of allowable project costs. The Chief Justice's requirement for public defenders and PDSC will be used to satisfy the colocation requirement. For example, the Multnomah County Courthouse was constructed and occupied in the fall of 2019. PDSC is a tenant of the county and co-locates office space in the building that houses a Public Defense Resource

Center, which provides meeting space for Portland public defenders and offices for state Appellate Division staff. PDSC will not be assessed any rent by Multnomah County during the building's 50-year lease, however the state is still responsible for paying General Fund debt service payments on the state-supported bonds used for construction.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $3.6 million includes eight positions (7.88 FTE). The budget included the following:

- $2.4 million General Fund to establish the Executive Division's budget at the current service level by transferring $2.4 million General Fund and five permanent positions (5.00 FTE) from abolished budget structures, as part of the agency's reorganization. An Operations and Policy Analyst 4 and an Operations and Policy Analyst 2 were converted to limited duration until the long-term need for these positions could be ascertained.
- $461,692 General Fund and establishment of one permanent full-time Deputy General Counsel position (1.00 FTE). This action was previously approved by the Emergency Board in April 2020.
- $729,709 and the establishment of a permanent full-time Deputy Director (0.88 FTE) and a permanent full-time Executive Assistant (1.00 FTE). Funding was provided for an agency Deputy Director, who reports directly to the Executive Director and serves in the capacity of the Executive Director, in their absence. This position is also intended to improve the coordination and oversight of the agency's legal and non-legal functions. The legislative expectation is that this position will be subject to a competitive recruitment.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $3.7 million for the 2021-23 biennium. The budget is $143,103, or 4%, more than the 2021-23 legislatively adopted budget.

Compliance, Audit and Performance Division

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	4,656,251	4,904,660
Total Funds	**--**	**--**	**$4,656,251**	**$4,904,660**
Positions	--	--	13	13
FTE	**--**	--	11.27	11.27

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Compliance, Audit and Performance Division (CAP) was established at the direction of the Legislature to independently monitor, measure, and report on the quality of Oregon's public defense being provided by PDSC at the appellate and trial-level, as well as provide for the review and accountability for the expenditure of state funding for public defense services. The Division and its budget are organized into the following sections: (1) Administration; (2) Trial Criminal Compliance; (3) Juvenile/Parent Child Representation Program (PCRP) Compliance; (4) Research, and (5) Internal Audit, which is to report directly to the Commission and the Commission's Audit Subcommittee.

CAP and its various sections operate autonomously from all other legal and administrative divisions within PDSC and exercise no managerial, supervisory, programmatic, or operational control over any other division or program. This structure allows for independent assessment and reporting directly to the Commission of the agency's performance.

The CAP budget temporarily includes the legal operational staff of the Trial Criminal and Juvenile Divisions, including the Chief Trial Criminal Defender and Deputy Defender and the Chief Juvenile Defender and Deputy Defender, who are responsible for direct program administration and to establish policy, procedure, and guidelines for each division as well as provide training and other assistance to providers. These non-CAP positions will need to be transferred to their respective programs, as part of a future budget adjustment.

Revenue Sources and Relationships

The Compliance, Audit and Performance Division is supported by General Fund.

Budget Environment

PDSC's independent contractor model is not conducive to robust quality control. A contract administrator for a contracting entity is, by contractual terms, charged with quality assurance but is not specifically compensated to perform this function. PDSC's efforts at quality control and assurance involved the Office of the General Counsel performing quality assurance assessments of contract providers in each of 27 judicial districts through a peer review process. This program involved a volunteer group of public and private defense attorneys and other professionals as well as PDSC staff to devote two and a half days to on-site interviews that was then coupled with other study and analysis to ascertain the quality of representation being provided by a particular contractor or contractors in the county or district. PDSC's quality control and assurance model, while well-intended, was inherently limited by its not having dedicated or assigned professional staffing or having a more robust and routinized review process across the 27 judicial districts or by having no in-house ability to conduct financial audits of providers.

The establishment of the CAP was designed to bring a heightened level accountability to Oregon's public defense system and to improve public defense outcomes through a robust monitoring of the quality-of-service delivery and the expenditure of funds at all levels of public defense. CAP is to provide for the following services: (a) vendor contract compliance; (b) auditing of vendors/contractors; (c) internal auditing of agency expenditures; (d) research and analysis; and (e) development and maintenance of performance measures, including key performance measures and supporting internal key performance indicators.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $4.7 million includes 13 positions (11.27 FTE). The budget included the following adjustments:

- $980,445 General Fund to establish the Compliance, Audit and Performance Division budget at the current service level by transferring General Fund and two positions (2.00 FTE) from abolished budget structures as part of the agency's reorganization.
- $1 million General Fund and establishment of two permanent full-time Deputy General Counsel positions (2.00 FTE) to oversee the work of the contract lawyers involved in criminal law. This action was previously approved by the Emergency Board in April 2020.
- $1.8 million General Fund and seven permanent full-time positions (5.51 FTE), which include the following: Criminal Trial Section - one permanent full-time General Counsel position for Criminal Trial (0.75 FTE); one permanent full-time Deputy General Counsel (0.50 FTE); Juvenile Section - abolish one permanent full-time Deputy General Counsel and establish one permanent full-time General Counsel; establish one permanent full-time Deputy General Counsel (1.00 FTE); Research Section - one permanent full-time Research Analyst 4 position (0.75 FTE) for Criminal Trial; one permanent full-time Research Analyst 4 position (0.75 FTE) for the Juvenile Section; and two limited duration Operations and Policy Analyst 2 positions (1.76 FTE).
- $854,520 General Fund and two permanent full-time Internal Auditor positions (1.76 FTE). This amount includes $350,000 for an independent financial and performance audit of the agency.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $4.9 million for the 2021-23 biennium. The budget is $248,409, or 5.3%, more than the 2021-23 legislatively adopted budget.

Appellate Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	23,463,072	26,935,314	24,925,503	26,071,083
Total Funds	**$23,463,072**	**$26,935,314**	**$24,925,503**	**$26,071,083**
Positions	57	56	57	58
FTE	**56.58**	55.80	56.80	57.38

Program Description

The Appellate Division was re-established to provide state and federal appellate court legal representation for financially eligible persons on criminal matters, and for parents in juvenile dependency and termination of parental rights appellate cases. The Division also represents inmates requesting judicial review of Board of Parole and Post-Prison Supervision decisions. The Division and its budget are organized into the following sections: (1) Administration; (2) Criminal Appellate; and (3) Juvenile Appellate.

The originally Appellate Division was established in 2001 when the state Public Defender agency was merged with the trial-level public defense function, a division within the Oregon Judicial Department, to form PDSC. However, it is important to note that the state has been responsible for appellate-level indigent defense since 1964 when the State Public Defender was established.

Revenue Sources and Relationships

The Appellate Division is supported by General Fund.

Budget Environment

The Division is the defense counterpart to the Oregon Department of Justice's Appellate Division, which defends the state in criminal appeal cases. PDSC's appellate-level services, both criminal and juvenile, are primarily state-employed staff attorneys; however, a certain number of cases are out-sourced due to attorney/client legal conflict of interest or workload issues to a panel of appellate attorneys approved by the agency or to a defense provider pursuant to contract.

Legal representation is primarily in the Oregon Court of Appeals and the Oregon Supreme Court, although the Division has occasionally appeared in the U.S. Supreme Court. The Juvenile Appellate Section handles dependency and termination of parental rights cases appealed to the Oregon Court of Appeals. The Division may also serve as a resource for trial-level contract counsel.

The 38 attorneys in the Criminal Appellate Section filed 892 briefs and argued 162 cases in fiscal year 2020. The 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 Criminal Section is able to handle nearly all criminal case referrals in-house, excluding conflict counsel cases.

The six attorneys in the Juvenile Appellate Section (JAS) filed 115 briefs and argued 30 cases in fiscal year 2020. Dependency cases involve appeals from juvenile court judgments asserting jurisdiction over a child or changing a child's permanency plan away from reunification with their family. The section represents parents in the majority of the dependency cases on appeal. Dependency and termination of parental rights (TPR) appeals are expedited under Oregon Rules of Appellate Procedures adopted by Oregon's Court of Appeals. The Juvenile Appellate Section only retains the cases that the section can resolve within the established timelines with all other cases assigned to outside counsel.

For the last four biennia, the overall JAS caseload has averaged an increase of 57.8 cases per biennium. Over the last five biennia JAS has, on average, retained 65% of cases and reverted or retained private contract counsel for 35% of the section's cases. For the 2019-21 biennium, JAS experienced a relatively normal increase of 53 cases. Most cases are dependency followed by a lesser amount of TPR cases and relatively few delinquency cases. During the 2019-21 biennium, JAS retained 432 cases (59%) and reverted or sent to outside counsel 299 cases (41%). While this is the highest number of retained cases in the last five biennia, the percentage of cases retained is below the 64% of cases retained for the prior three biennia. JAS per-attorney retained caseloads average 40 cases per attorney per fiscal year.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $24.9 million is $1.5 million, or 6.2%, more than the 2019-21 legislatively approved budget and includes 57 positions (56.80 FTE). The budget included the following:

- $24.5 million to reestablish the Appellate Division budget at the current service level by transferring General Fund and 56 positions (55.80 FTE) from the abolished Appellate Division budget structure as part of the agency's reorganization.
- $1 million restoration of a reduction for transcriptions and deposition costs.
- $408,925 General Fund and one permanent full-time Senior Deputy Defender (1.00 FTE) to augment staffing for the Juvenile Appellate Section, which backfilled a position the agency had established administratively.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $26.1 million for the 2021-23 biennium. The budget is $1.2 million, or 4.6%, more than the 2021-23 legislatively adopted budget. The budget includes 58 positions (57.38 FTE). $259,969 General Fund and one position (0.58 FTE) was added for the Appellate Division, Juvenile Appellate Section, to support caseload growth. In addition, $135,221 General Fund from 2019-21 unexpended General Fund carryforward was recognized.

Trial Criminal Division

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	186,458,931	199,267,268
Total Funds	**--**	**--**	**$186,458,931**	**$199,267,268**

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description

The Trial Criminal Division supports trial-level public defense paid to contract providers for financially eligible defendants in the following adult criminal trial level service cases-types: (a) criminal; (b) civil commitments; (c) contempt; and (d) representation in juvenile dependency and termination of parental rights cases in counties not participating in Parent Child Representation Program. The Division and its budget are organized into the following sections: (1) Administration; (2) Appellate; (3) Trial Level; and (4) Juvenile (non-Parent Child Representation Program). The Trial Criminal Division was previously budgeted as part of the former Professional Services Account. The Division is overseen by the Chief Trial Criminal Defender, which, along with other Deputy Defender staff, will need to be transferred into the Division from their temporary budget assignment in the CAP program.

Revenue Sources and Relationships

The Trial Criminal Division is supported by General Fund.

Budget Environment

The provisioning of trial-level public defense representation in Oregon is accomplished through individual contracts with independent contractors: (a) non-profit public defender offices that only perform public defense work (35.5%); (b) consortia of public defense attorneys working under a single public defense contract that is managed by an administrator (52.2%); (c) private law firms that undertake both public defense and non-public defense work (12.1%); and (d) sole practitioners or non-contract attorneys, which may undertake both public defense and non-public defense work (0.3%). Outside of PDSC's procurement process, some providers have subcontracted their public defense contract work. Some public defender offices are unionized and subject to collective bargaining.

Contracts, as well as any contract amendments, are negotiated by PDSC and approved by the Commission. Some PDSC contractors also provide non-attorney services such as investigation that are negotiated as part of trial-level provider contracts. PDSC contracts with trial-level and non-Parent Child Representation Program juvenile providers for approximately 523 contract attorney full-time equivalents (FTE) per year. PDSC also has statewide attorney contracts for death penalty, post-conviction relief, *habeas corpus*, and Psychiatric Security Review Board cases. Statewide contracted FTE totals an estimated 17.30 FTE per year.

PDSC trial-level caseloads, including juvenile cases, average 172,322 cases per fiscal year and there are 347 appellate-level cases on average per fiscal year (2011 to 2019). Caseloads for fiscal year 2020 totaled only 83,284 due to the COVID-19 pandemic. The largest category of case type is misdemeanors (38%), followed by juvenile dependency cases (i.e., foster care) (24%), felonies (18%), probation violations and extraditions (16%), juvenile delinquency and probation violations (2%), civil commitments (i.e., Psychiatric Security Review Board) and all others (e.g., contempt, habeas, etc.) (1%), according to fiscal year 2020 data.

PDSC reports having approximately 100 pending death penalty cases and a continuing, multi-biennia trend of fewer cases being filed. Capital punishment in Oregon has effectively ended due to changes in law and what is now a decades-long governor's moratorium on executions, which began with Governor Kitzhaber and continued through Governor Brown's administration.

In September 2020, and in response to the Sixth Amendment Center report, PDSC approved a new contracting model. Under the new model ("Legal Representation Unit"), which went into effect, January 1, 2021, public defense contracts are issued principally pursuant to two-year contracts under which compensation is paid on a FTE caseload model. Contractors are paid a monthly rate per attorney to provide representation for a caseload, or a portion of a caseload, with rates varying depending on whether the jurisdiction is in an urban or rural area.

For the Legal Representation Unit contract model, full-time equivalent rates for urban jurisdictions fall between $205,000 to $211,150 and non-urban rates fall between $190,000 to $195,700, per year. These rates not only include funds for attorney compensation, but for the full range of overhead costs, including rent and staff compensation. Moreover, each attorney is required to have at least 0.50 FTE in support staff, which is covered by the contract. Each contract includes funds for the total number of attorney FTE, with costs for treatment court legal services and investigation supplemented as needed for each jurisdiction. Of note, is that while PDSC contracts for annual rates of pay for an attorney, providers themselves, as independent contractors, determine the actual rate of pay for an attorney under their employ.

Under the Legal Representation Unit contract model, each contract attorney is obligated to take an annual caseload consistent with 115% of the 1973 American Bar Association appointed caseload standards, which provide that an attorney can handle some combination of the following case-types per year: murder (4); felony (150); misdemeanors (400); probation violations (400); mental health (200); juvenile delinquency (200); dependency and termination of parental rights cases (60); and appeal cases (25).

<u>Legislatively Adopted Budget</u>

The 2021-23 legislatively adopted budget of $186.5 million is comprised exclusively of services and supplies, expended as professional services. The budget included the following:

- $255.8 million to establish the Trial Criminal Division budget at the current service level by transferring General Fund from abolished budget structures as part of the agency's reorganization.
- $905,645 General Fund for professional services to fully fund Trial Criminal Division expenses at current service level based on contract and contract amendment costs, as of May 2021.

- $70.3 million General Fund reduction for professional services. The General Fund holdback was be placed in a SPA appropriated to the Emergency Board for PDSC. The holdback of General Fund was deemed necessary, as the Commission is statutorily exempt from executive allotment authority and, therefore, the Legislature is unable to request the unscheduling of agency funds

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $199.3 million for the 2021-23 biennium. The budget is $12.8 million, or 6.9%, more than the 2021-23 legislatively adopted budget due to the addition of $12.8 million General Fund, on a one-time basis, for the procurement of indigent defense counsel in Multnomah, Washington, Marion, and Lane counties and to address the current backlog of unrepresented clients in the four counties and provide increased attorney capacity for the remainder of the biennium.

In addition, PDSC began another overhaul of provider contract terms for the second year of the biennium, which may include increased provider compensation, compensation based on attorney qualifications, new and lower caseload standards for trial-level cases, standardized payment of administrative costs, among other changes.

Non-Routine Expenses

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	43,663,533	43,663,533
Total Funds	**--**	**--**	**$43,663,533**	**$43,663,533**

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Non-Routine Expenses Division (NRE) funds "reasonable and necessary" non-attorney public defense-related trial and appellate representation case costs for financially eligible defendants, including transcriptionists, investigators, interpreters, mitigators, social workers, psychologists, polygraph examiners, and forensic experts, such as firearm experts, arson experts, deoxyribonucleic acid (DNA) experts, and medical experts that fall outside regular, routine case-mandated expenses. The Division and its budget are organized into the following sections (1) Administration; (2) Appellate; (3) Trial Level; and (4) Juvenile. The division is overseen by the Executive Director, as the division has no legislatively authorized staffing. The Non-Routine Expenses Division was previously budgeted as part of the former Professional Services Account.

The Non-Routine Expense Division is used to track and fund non-routine case-related expenses that require agency pre-authorization before being paid. NRE are defined in the agency's payment policy as expenses that are not "routine," but is better defined as necessary expenditures apart from the fixed cost of public defenders. PDSC has approximately ten contracts with non-attorney providers, including one with a private forensic laboratory. Some public defender contracts, however, do include a provision for investigators.

Revenue Sources and Relationships
The Non-Routine Expenses Division is supported by General Fund.

Budget Environment
The amount of non-routine expenses is driven by attorney caseload and workload and case-type. The difference between court-mandated expenses (discussed below) and non-routine expenses is that non-routine expenses must be approved by the agency in writing before any service can be performed on behalf of a public defense client. The pre-approval of an NRE expense is managed by an NRE Team in the Administrative Services Division. If the request is approved in part or denied, a written explanation is provided. The attorney can then appeal the agency's decision to the presiding judge of the circuit court in which the NRE arose.

An NRE authorization is valid for an extended period of time, which can push payment well into the future.

In theory, once an NRE is authorized, the authorization is valid for two years from the date of approval. PDSC is required to budget and account for expenditures in the biennium for which the expense is incurred. In practice, however, a pre-authorized NRE expense may remain unsubmitted for reimbursement to PDSC for years. Currently, PDSC is reporting an outstanding and unbudgeted liability for obligated NRE expenses estimated to be between $52.7 and $58 million General Fund, which equates to an entire biennium of NRE costs. How much of this obligation will actually be incurred and need to be paid and when is unclear at this time. Last biennium, eligible non-routine expenses should have been lower than normal due to the impact of the COVID-19 pandemic; however, that was not been the case. PDSC required supplemental funding of $3.8 million General Fund to resolve deficits for both NRE and Court-Mandated expenses (June 2021).

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $43.7 million is comprised exclusively of services and supplies, expended as professional services. The budget included the following:

- $62.8 million to establish the Non-Routine Expenses budget at the current service level by transferring General Fund from abolished budget structures, as part of the agency's reorganization.
- $917,915 General Fund for interpreter and investigator rate increases approved by the Emergency Board in April 2020 (Item #11). However, PDSC made the administrative decision to only provide a rate increase to investigators. The hourly rate for investigators in non-capital cases increased from $34 to $40 per hour, resulting in a 17.6% increase.
- $4.5 million General Fund reduction to reconcile current service level funding with forecasted expenses, as of May 2021.
- $14.6 million General Fund reduction to professional services budget. The General Fund holdback was placed in a SPA appropriated to the Emergency Board for PDSC. The holdback of General Fund was deemed necessary, as the Commission is statutorily exempt from executive allotment authority and , therefore, the Legislature is unable to request the unscheduling of agency funds.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $43.7 million for the 2021-23 biennium, which is unchanged from the 2021-23 legislatively adopted budget.

Court Mandated Expenses

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	15,006,403	15,006,403
Other Funds	--	--	4,449,667	4,449,667
Total Funds	**--**	**--**	**$19,456,070**	**$19,456,070**

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description

The Court Mandated Expenses Division funds trial and appellate routine expenses for certain routine court-mandated case-related expenses for financially eligible defendants that do not require pre-authorization for billing, as well as for attorney services that are not billed under a provider contract. The Division and its budget are organized into the following sections: (1) Administration; (2) Appellate; (3) Trial Level; (4) Juvenile; and (5) the Application Contribution Program (ACP). The Division is overseen by the Executive Director, as the division has no legislatively authorized staffing. The Court Mandated Expenses Division was previously budgeted as part of the former Professional Services Account.

The primary types of court-mandated expense include discovery, interpreter services, medical, school, Oregon Department of Transportation - Department of Motor Vehicles, and other similar records (up to $300), 911 recordings and Emergency Communication Recording Logs, telephone charges, photocopying and scanning, facsimile charges, routine mileage and parking, postage, service of process, and the payment of lay witness and mileage.

The second type of expense is for private hourly rate attorney services not billed under a provider contract. Such services are necessary to avoid conflicts of interest in multi-defendant cases, to fill the gap needed by contractors being at capacity, or to fill gaps when contract attorneys lack the requisite qualifications needed to handle a case. In those instances, the agency typically retains pre-qualified counsel on an hourly basis (private hourly rate).

The ACP was created with the intent to avoid some taxpayer costs related to providing court appointed counsel at public expense by an assessment of advance payment from people who could afford to make a monetary contribution toward the cost of representation and the administrative costs of determining their eligibility. The Commission enters into an intergovernmental agreement with OJD for the use of these fees for public defense verification staffing. OJD verification specialists assist the courts in determining whether a person must pay these costs. This revenue is deposited into PDSC's Public Defense Services Account and used to fund: OJD's verification specialists via a transfer of funds, as well as. a portion of PDSC's court-mandated costs.

Revenue Sources and Relationships

The Court Mandated Expenses Division is supported by General Fund and Other Funds. The source of Other Funds revenue is from the ACP, which for the 2021-23 biennium is estimated to total $4.4 million. Of that amount, $3.6 million is to be transferred to the OJD to fund the verification specialist positions.

Due to the pandemic, as well as actions taken by the Chief Justice of the Oregon Supreme Court and circuit court judges, there is a potential of an ACP revenue shortfall; however, ongoing review of ACP revenues is necessary to determinate if a revenue shortfall issues exists or if the ACP revenue stream is in recovery. In addition, some judges have misunderstood the distinction between the ACP contribution amount and attorney fees and have only ordered attorney fees at the conclusion of the case. This is having an adverse effect on the financial viability of ACP given the statutory difference in how the funds are distributed and utilized.

Budget Environment

The Court Mandated Expenses Division workload is primarily driven by external drivers and outside the control of the agency, including the volume of cases charged. Other factors that can affect the volume of such expenditures include changes in the agency's contracting practices or changes in law. PDSC's new trial-level contracting model, which imposes caseload limitations, could, as an unanticipated impact, drive the need for a greater use of non-contract attorney providers.

PDSC pays hourly rates for attorneys and non-attorney services. The hourly rate for a non-capital or non-murder attorney is $75 per hour and $105 per hour for an attorney assigned a capital case. An out-of-state attorney is paid $55 per hour. Investigators are paid $40 to $65 per hour depending upon the case-type. Interpreters are paid between $38 to $65 an hour depending upon whether the interpreter is registered or certified for interpreting for American Sign Language. Travel time, photocopying, scanning, and meals may also be reimbursed subject to established rates.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $19.5 million is comprised exclusively of services and supplies, expended as professional services. The budget included the following:

- $20 million General Fund and $4.5 million Other Funds to establish the Court Mandated Expenses budget at current service level by transferring General Fund and Other Funds expenditure limitation for the ACP, from abolished budget structures as part of the agency's reorganization. The Division's budget is comprised exclusively of services and supplies, expended as professional services. This also consolidated ACP revenues into a single program. ACP revenue supports a special payment of $3,591,305 to OJD for the program Verification Specialist positions, as well as a portion of Court Mandated expenses. ACP revenues will no longer be used to fund PDSC personnel costs, which have been fund shifted from Other Funds to General Fund.

- $5 million General Fund reduction to professional services. The General Fund h0ldback was placed in a SPA appropriated to the Emergency Board for PDSC. The holdback of General Fund was deemed necessary, as the Commission is statutorily exempt from executive allotment authority and, therefore, the Legislature is unable to request the unscheduling of agency funds.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $19.5 million for the 2021-23 biennium, which is unchanged from the 2021-23 legislatively adopted budget.

Juvenile Division

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	30,577,095	30,772,928
Other Funds	--	--	14,000,000	14,000,000
Total Funds	**--**	**--**	**$44,577,095**	**$44,772,928**
Positions	--	--	--	1
FTE	--	--	--	0.50

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Juvenile Division was established to provide trial-level representation to financially eligible parents and children in cases of juvenile delinquency, juvenile dependency, and those involving the termination of parental rights. The Division and its budget are organized into the following sections: (1) Administration; (2) Juvenile Expenses (non-Parent Child Representation Program or PCRP); (3) PCRP Expenses; and (4) Title IV-E Federal as Other Funds. The Juvenile Division was previously budgeted as part of the former Contract and Business Services Division.

At present, and until such time as non-PCRP juvenile contracts can be segregated from criminal trial contracts and moved to the Juvenile Division, the Division is comprised of only the PCRP program. The Division is overseen by the Chief Juvenile Defender, which, along with other Deputy Defender staff, will need to be transferred in into the Division from their temporary budget assignment in the CAP program.

Revenue Sources and Relationships
The Juvenile Division is supported by General Fund and Other Funds. In the 2021-23 biennium, PDSC anticipates $14 million Federal as Other Funds from Title IV-E funds sent by the Department of Human Services for reimbursement of state expenses. In 2019, federal policy was revised, allowing Oregon to claim Title IV-E funds for administrative reimbursement of costs associated with legal representation of a child or parent in foster care proceedings. Reimbursement for training of contracted legal services providers is also included. Title IV-E revenue results in General Fund savings, as these monies were used instead of General Fund.

Budget Environment
From 2011 to 2019 there were 34,836 cases on average per fiscal year for juvenile delinquency, dependency, and termination of parental rights. PDSC provides juvenile representation through two models trial-level provider contracts for 26 counties and PCRP provider contracts in ten counties. The 10 counties participating in the PCRP include Linn and Yamhill (2014); Columbia (2016); Coos and Lincoln (2018); Multnomah, Benton, Clatsop, Douglas, and Polk (2020). PDSC's decision to expand the PCRP program into Benton, Clatsop, Douglas, and Polk counties was undertaken without legislative authorization or legislatively authorized budget authority. This administrative decision was later approved and funded retroactively by the Legislature in 2021.

For the PCRP model, PDSC contracts for approximately 82.00 FTE contract attorneys, 3.50 FTE case supervisors, and 28.00 FTE case managers, at an estimate cost of $44 million total funds per fiscal year. The trial-level provider contract model for juvenile representation is similar in construction to criminal trial-level contracts except for caseload requirements. PDSC provider contracts in the 26 non-PCRP counties total an estimated 95.00 FTE at an estimated cost of $46 million General Fund per fiscal year.

Legal representation of parents and children is closely intertwined with the functioning of the child welfare system. Legal representation is reportedly associated with fewer unnecessary removals of children from their families as well as greater participation in court hearings, more frequent family visitation, minimization of time in foster care, sooner permanency, and more successful reunifications.

PCRP is an interdisciplinary legal representation approach to improve outcomes for parents and children impacted by the justice system. Each parent and each child generally are represented by separate counsel. The PCRP, modeled on the Washington State Parent Representation Program, relies on contracts with consortia, nonprofits, and law firms. PCRP differs substantively from the trial-level provider contract model in the following ways: (1) juvenile defender attorney caseload is limited by PDSC to 80 open cases to allow attorneys to allocate enough time to client communication, court preparation and out of court advocacy in manner consistent with national standards; (2) social work case managers for about 10% to 15% of cases, which translates to an open caseload of 28 clients or approximately one social work case manager for every three PCRP provider attorneys; (3) one social work case administrator is required for every 20 social case managers; (4) contract administrators; and (5) requirement of heightened accountability, including tracking and reporting of attorney time and case activities.

In addition, the PCRP program has program-related overhead costs, which include PDSC staff to perform the following tasks: (1) county-specific implementation; (2) quality assurance and evaluation of outcomes; (3) attorney education, training, and technical assistance; (4) observation and evaluations; and (5) assistance with contract negotiations, among other duties.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $44.6 million is comprised exclusively of services and supplies that is expended as professional services. The budget included the following:

- $22.9 million General Fund for professional services necessary to reconcile current service level funding with forecasted expenditures for juvenile trial-level contracts in 26 counties, as of May 2021.
- $21.5 million to establish the Juvenile Division budget at the current service level by transferring General Fund from abolished budget structures, as part of the agency's reorganization.
- $14 million Other Funds from federal reimbursement for legal representation of financially eligible parents and children involved in foster care under the PCRP. Title IV-E funding for PCRP first became available during the 2019-21 biennium. General Fund was reduced by $14 million and Other Funds expenditure limitation was increased by $14 million to reflect the availability of Title IV-E funding as reimbursement for state expenses. A similar action was approved by the Legislature during the 2020 second special session. However, the amount has increased from $9 million to $14 million, based upon the most current agency estimate.
- $10.4 million General Fund to resolve current service level deficits in professional services needed to fund the following: (a) expansion of PCRP into Benton, Clatsop, Douglas, and Polk counties during the 2021-23 biennium; and (b) financial support enabling a carve-out of existing PCRP counties from trial-level contracts, which may include the Multnomah County expansion.
- $10.2 million General Fund reduction to professional services. The General Fund holdback was placed in a SPA appropriated to the Emergency Board for PDSC.

The Legislature delayed further expansion of the PCRP until the systemic issues facing the public defense system and the agency are addressed. Of additional legislative concern is that the expansion of PCRP counties was undertaken without regard to other related legislative investments, such as Family Treatment Courts.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $44.8 million for the 2021-23 biennium. The budget is $195,833 more than the 2021-23 legislatively adopted budget due to the addition of one permanent full-time position (0.50 FTE) for family treatment courts.

Special Programs, Contracts, and Distributions

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	380,436
Total Funds	**--**	**--**	**--**	**$380,436**
Positions	--	--	--	1
FTE	**--**	--	--	0.50

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Special Programs, Contracts, and Distributions Division was established to provide a budget structure for programs and activities apart from other budgeted programs, activities, and major procurements. At present, the Division and its budget is organized into a single section: Civil Protective Proceedings. This division, however, may also be used to budgeted for activities not directly related to other standard agency activities, such as pass-through payments.

Revenue Sources and Relationships
The Special Programs, Contracts, and Distributions Division is supported by General Fund.

Budget Environment
Historically, statute gave circuit courts the authority to appoint counsel for proposed protected persons but did not require counsel. Some cases were handled by court-appointed pro bono (without charge) attorneys while others were handled by nonprofit entities that provide volunteers to monitor protected persons under guardianships in certain counties. The remainder of appointments were attorneys paid by the estate of the protected person.

In 2021,tThe Legislature enacted SB 578 and the measure was signed into law on June 23, 2021. The law allows for the payment of court-appointed counsel at state expense for qualified individuals when the estate of the protected person is insufficient to pay the expense of a private counsel. The law establishes a pilot program in three counties to provide counsel for persons in protective proceedings. Multnomah and Lane counties are to begin providing legal services on or after January 2, 2022 followed by Columbia County, which is to begin on or after January 2, 2023. The state's remaining 33 counties are to begin on or after January 2, 2024.

PDSC is working with OJD to establish financial eligibly requirements. The process and the cost to determine financial eligibility is currently indeterminate. A statutory clarification may be needed to define legislative expectations around the eligibility process. Private attorneys would be paid a standard $75 per hour on a case-by-case basis (i.e., non-contract). PDSC will rely upon a list of qualified private attorneys currently maintained by individual probate judges. Probate judges would no longer appoint pro bono attorneys. A contract attorney may be eligible for any non-attorney expenses.

Caseload estimates were based on conversations with pilot county circuit court judges, according to PDSC. The courts and PDSC are anticipating a significant increase in the number of cases deemed by the court to be financially eligible for state support.

Legislatively Adopted Budget
The Special Programs, Contracts, and Distributions Division did not have a 2021-23 legislatively adopted budget, as the budget for the division was established during the 2022 legislative session, after the conclusion of the 2021 legislative session when budgets are initially adopted.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $380,436 General Fund for the 2021-23 biennium. The Legislature added $380,436 General Fund and one limited duration full-time position (0.50 FTE) to implement SB 578 (2021) for the payment of private counsel.

Administrative Services Division

	2019-21 Legislatively Approved*	2021-23 Current Service Level*	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	12,296,098	13,629,875
Total Funds	**--**	**--**	**$12,296,098**	**$13,629,875**
Positions	--	--	30	32
FTE	--	--	28.77	30.03

*Prior budget cycle information unavailable, as this is a newly established division.

Program Description
The Administrative Services Division (ASD) was established to provide agency-wide administrative support services. The newly established division is organized into the following sections based on service delivery: (1) Administration; (2) Budget; (3) Accounting/Accounts Payable; (4) Human Resources; (5) Procurement; (6) Facilities; and (7) Information Services.

ASD staff negotiate and administer contracts for the provision of legal services. They pre-authorize and process payments for non-routine expenses, review, approve and process requests for non-contract fees and expenses. The Division also prepares the agency's budget, performs the accounting function of the agency, payroll, and human resource functions.

Revenue Sources and Relationships
The Administrative Services Division is supported by General Fund.

Budget Environment
PDSC contracts with approximate 100 providers for legal services. The timely processing of vendor payments has been an issue for the agency, as the agency has reported payments falling above the state's standard 45 day payment period; however, PDSC has faced criticism for making payments without the requisite review of the appropriateness of invoiced expenses.

PDSC has undertaken a number of one-time contracts during the 2021-23 biennium, totaling an estimated $895,332 General Fund, that are being funded from the legislative adopted budget, as there has been no separate request for supplemental resources. The contacts include management consultancy, media/communications, audit services, labor relations services, executive recruitment, legal services, and an information technology study.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget totals $12.3 million and includes 30 positions (28.77 FTE). The budget included the following:

- $8.9 million to establish the Administrative Services Division budget at the current service level by transferring General Fund and 16 positions (16.00 FTE) from abolished budget structures, as part of the agency's reorganization.

- $1.5 million General Fund and six full-time positions (6.00 FTE) reflects actions previously approved by the Emergency Board in April 2020. This includes: (a) one permanent Program Manager 4 to oversee procurement, (b) one permanent Program Manager 1 to oversee accounts payable; (c) two limited duration Human Resource Analyst 2 positions to address increased workload associated with new positions and implementation of Workday; and (d) two permanent Accounting Technician 2 positions to assist in the timely processing of payments.
- $1.1 million General Fund to re-establish an Information Technology Section for the agency by July 1, 2022.
- $806,160 and a net establishment of four permanent full-time positions (3.88 FTE) to augment staffing levels for budget, accounting, and procurement services, and to add staff responsible for the review of non-routine expenses and that were established administratively by the agency.
- $250,000 General Fund reduction to professional services.
- $7,179 General Fund is provided for associated services and supplies. This is the net result of $239,160 originally granted and a $231,981 reduction of one-time funds for Information Technology professional services associated with planning for the Financial and Case Management System.
- $191,816 General Fund to provide services and supplies for agency-wide expenses for various policy packages approved in other divisions of the agency.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $13.6 million for the 2021-23 biennium. The budget is $1.3 million, or 10.8%, more than the 2021-23 legislatively adopted budget. The budget includes 32 positions (30.03 FTE). Major investment included:

- $743,588 General Fund, on a time-time basis, and two limited duration positions (1.26 FTE) for the re-initiation of the planning phase of the Financial and Case Management information technology project.
- $132,450 General Fund for 2019-21 unexpended General Fund carryforward.

ECONOMIC DEVELOPMENT

PROGRAM AREA

BUSINESS DEVELOPMENT DEPARTMENT

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	180,402,020	74,623,733	209,279,227	263,338,524
Lottery Funds	118,307,582	133,205,160	150,711,472	148,999,777
Other Funds	698,505,313	505,683,369	1,175,309,563	1,260,961,040
Other Funds (NL)	301,174,521	217,309,699	327,309,699	327,309,699
Federal Funds	80,899,888	45,056,345	85,432,939	87,293,606
Total Funds	**1,379,289,324**	**975,878,306**	**1,948,042,900**	**2,087,902,646**
Positions	144	144	158	171
FTE	139.68	139.50	156.42	162.00

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 29.7% 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 Innovation Plan, Strategic Reserve Fund, and Oregon Manufacturing and Innovation Center research and operations support. The Business, Innovation, and Trade program area is the agency's largest in terms of staffing, with 40% 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 is funded with Other Funds from state agency assessments and revenue from the Oregon Department of Transportation. General Fund supports the Solar Incentivization Program and the newly created Emerging Opportunities 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 98% 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. 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 6% 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 NEA.
- 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 continues to promote job creation and retention in the face of challenging economic environments, including the challenges brought on by the COVID-19 pandemic. The agency'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.

Roughly 33.5% 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 $120.5 million in the 2021-23 budget and represents a $20.2 million, or 20.2%, increase over the 2019-21 legislatively approved budget.

Legislatively Adopted Budget

The Legislature adopted a $1,948,042,900 budget for the Oregon Business Development Department for the 2021-23 biennium, which represents a 42.3% increase over the legislatively approved budget for the 2019-21 biennium.

Both Lottery revenue and General Obligation bonds were authorized for issuance to support programs at OBDD. Bonds were authorized for sale for the following purposes:

- $160 million for seismic rehabilitation grants for public school buildings and emergency services facilities (General Obligation bonds).
- $50 million for the Special Public Works Fund (Lottery bonds).
- $15 million to support grants from the Levee Grant Program Fund (Lottery bonds).
- $10 million for the Brownfields Redevelopment Fund (Lottery bonds).
- $10 million to support grants for county fair capital improvement projects (Lottery bonds).
- $9.2 million for grants to specified cultural facilities (Lottery bonds).

General Fund investments of $127.5 million were made by the Legislature both for one-time projects and ongoing programs. In addition to the $50 million bonding authorized for the capitalization of the Special Public Works Fund, a General Fund appropriation of $50 million was also approved for deposit in the fund. Two projects that were provided General Fund in the prior biennium but did not have the grant funds fully drawn down were provided General Fund appropriations in the 2021-23 biennium; $7 million for the City of Sweet Home for a wastewater treatment plant upgrade; and $5.7 million for the Confederated Tribes of the Warm Springs for water system upgrades and a wastewater treatment plant upgrade.

General Fund grant assistance to local governments following the 2020 fire season was continued and expanded in the OBDD budget for 2021-23. This included: $4 million for general municipal wildfire assistance grants, $4.2 million for grants to specified local governments for building and planning departments staffing, and $772,000 for grants to specified local governments for general staffing and operational needs. A General Fund appropriation of $5 million was made for deposit into the University Innovative Research Fund to provide grants for matching funds supporting innovation or commercialization of technology developed at Oregon’s public universities and the Oregon Health and Science University.

Three new programs were provided General Fund for the upcoming biennium. A $25 million appropriation to OBDD was provided to establish an Emerging Opportunities Program. This pilot program is intended to support flexible grants to public and/or private entities for projects targeted at facilitation private investment in Oregon, with a focus on leading or emerging business sectors. A $10 million appropriation was provided for the purpose of making awards to fund loan-loss reserves to increase lending to business owners who current lack access to capital. An additional $10 million General Fund appropriation was provided to support a direct-loan program to certain eligible businesses that have been certified by the Certification Office for Business Inclusion and Diversity.

Significant Lottery Funds investments included:

- $10 million for a grant to support the World Track and Field Championships in Eugene.
- $9 million to increase technical assistance to underrepresented businesses through a competitive grant program to culturally specific organizations delivering technical assistance services.
- $2 million to expand funding of the Rural Opportunity Initiative that supports entrepreneurship based economic development in rural communities.
- $1 million to increase funding for the Small Business Development Center network, bringing total funding to just over $5.6 million.
- $750,000 for increased funding for the Oregon Manufacturing Extension Partnership.

The Legislature made $275.7 million of investments local water and wastewater infrastructure using American Rescue Plan Act (ARPA) funds made available to the Oregon Business Development Department. ARPA funds of $50 million were also used to establish a grant program for music, cultural, and community venues and organizations that were financially harmed due to the COVID pandemic. ARPA, Capital Projects Funds of $120 million were allocated to OBDD to provide grants and loans for the planning and development of broadband service infrastructure, digital literacy, digital inclusion, and digital adoption.

Non-limited Other Funds adjustments were included for the expenditure of additional bond proceeds in the Brownfields Redevelopment Fund and the addition of both bond proceeds and General Fund monies to the Special Public Works Fund.

Legislatively Approved Budget
The 2021-23 legislatively approved budget for OBDD increased by almost $140 million, or 7.2%, from the legislatively adopted budget. General Fund appropriations increased by $54,059,297 including:

- $15 million for deposit in the Economic Equity Investment Fund. Both the creation of the fund and the General Fund appropriation were established by SB 1579 (2022).
- $20.4 million was provided for local infrastructure projects.
- $10 million pass-through funding to Travel Oregon for grants to Outfitter Guides.
- $6 million for deposit in the Eastern Oregon Economic Development Boarder Board.
- $2 million for municipal wildfire recovery assistance grants.

A net reduction of $1.7 million Lottery Funds was taken due to downward adjustments to Lottery Funds debt service obligations, which were offset somewhat by increases approved for state compensation plan adjustments and incremental increases to agency staffing.

Other Funds expenditure limitation increased by $85.7 million in the 2022 legislative session, however that amount is comprised of increases to expenditure limitation provided for the expenditure of the federal ARPA funds transferred to the department as well as state-based Other Funds. Of the increase, $21 million of the Other Funds expenditure limitation is provided for the expenditure of General Fund monies deposited into statutorily created funds, effectively double counting the expenditure of those General Fund monies deposited in the Economic Equity Investment fund and the Eastern Oregon Economic Development Boarder Board Fund. $36.8 million Other Funds expenditure limitation was provided for the anticipated receipt of ARPA, Capital Projects Fund monies transferred to the department for deposit in the Broadband Fund. $17.4 million Other Funds expenditure limitation was provided for American Rescue Plan Act, State Fiscal Recovery Fund monies transferred to the department for water infrastructure projects.

The remaining Other Fund expenditure limitation changes were due to adjustments for state compensation plans, debt service, technical adjustments to allow for expenditure of unanticipated fund balances, and grant funds.

Operations

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	10,000,000
Lottery Funds	8,701,267	9,213,945	10,938,127	11,300,053
Other Funds	3,733,007	3,128,852	3,583,494	3,696,321
Federal Funds	233,996	250,176	250,176	255,849
Total Funds	**12,668,270**	**12,592,973**	**14,771,797**	**25,252,223**
Positions	40	37	47	47
FTE	39.13	37.00	47.00	47.00

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.

Revenue Sources and Relationships
Operations is primarily financed with Lottery Funds (74%). Other Funds revenues of $3.6 million are transferred from the Business, Innovation, and Trade and Infrastructure divisions to cover a portion of the Department's 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 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 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 2021-23 legislatively adopted budget of $14.8 million for Operations is a $3 million, or 24.8%, increase over the prior biennium. The increase is attributable to the investment in personal services capacity. The budget continues refinements to the staffing needs and operational capacity of the Operations program that were made in the prior biennium. Further increased capacity was also provided to address the influx of funding and establishment of new programs at the agency resultant from the 2021 legislative session.

The reduction of a vacant public affairs specialist position (1.00 FTE) and associated funding of $205,962 Lottery funds was carried-forward to the 2021-23 biennium as a result of actions taken in the second special session of 2020 that were not captured in the agency's current service level.

Several position reclassifications as recommended by the Department of Administrative Services were included in the budget. For the Operations program, five positions received reclassification adjustments and one Procurement and Contract Specialist position was transferred from the Business Innovation and Trade program. These actions resulted in an increase in position authority of one position (1.00 FTE) along with associated expenditure limitation of $206,245 Lottery Funds and $107,457 Other Funds.

The budget provides expenditure authority of $468,309 Lottery Funds and $76,200 Other Funds and authorizes the establishment of a Senior Application Developer position (1.00 FTE) and an IT Project Manager position (1.00 FTE). The addition of these positions continues the agency's effort in building an in-house IT team that includes application development and overall increase in Information Systems capability and management. The agency is currently converting aging legacy loan, grant, bond and tax-incentive portfolio management systems to online applications. This follows the Legislature's prior biennium investment of $700,000 to replace the agency's legacy financial portfolio management system, of which $550,000 was for one-time project management and software replacement costs and $150,000 for ongoing annual software licensing costs.

An additional eight new positions (8.00 FTE) were authorized for the program to address ongoing capacity issues including a human resources analyst, an accounting technician, two procurement and contract specialists, two information technology specialists, and two public affairs specialists. An associated Lottery Fund expenditure limitation increase of $1,387,837 and Other Funds expenditure limitation increase of $272,00 for the Operations Division are included in the budget.

Legislatively Approved Budget
An appropriation of $10 million General Fund was provided to the Oregon Business Development Department for distribution to Travel Oregon for a program to provide COVID and drought relief grant funds to Outfitter Guides. The program administered by Travel Oregon is intended to be a temporary program providing direct financial assistance to private, for-profit and non-profit entities registered with the Oregon State Marine Board as Outfitter Guides. The relief funding opportunity is intended to offset financial losses suffered by Outfitter Guides due to restrictions related to the COVID-19 pandemic and recent drought conditions.

Increased expenditure limitation of $361,926 Lottery Funds, $112,827 Other Funds, and $5,673 Federal Funds was established for adjustments for state compensation plans.

Business, Innovation, and Trade

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	14,938,798	3,604,743	58,189,806	81,802,253
Lottery Funds	61,553,892	64,419,366	87,579,268	88,528,852
Other Funds	32,052,272	26,051,489	82,433,080	140,808,264
Other Funds (NL)	12,976,785	12,976,785	12,976,785	12,976,785
Federal Funds	5,980,869	6,256,787	28,256,787	29,271,983
Total Funds	**127,502,616**	**113,309,170**	**269,435,726**	**353,388,137**
Positions	59	63	63	76
FTE	59.00	59.00	63.00	68.58

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.

Major programs within the division include The Oregon Innovation Council, the Governor’s Strategic Reserve Fund, Small Business Assistance Programs, Oregon Manufacturing Innovation Center, and Oregon Metals Initiative. Other BIT programs include the Certification Office for Business Inclusion and Diversity, business finance direct loan and loan guarantee programs, the Industry Competitiveness Program (including the Oregon Manufacturing Extension Partnership), the University Innovative Research Fund, and the Solar Development Incentive program.

Several new programs within the Business, Innovation, and Trade program were established in the 2021 legislative session including:
- The Emerging Opportunity Program to support flexible grants to public and/or private entities for pilot projects targeted at facilitating private investment in Oregon, with a focus on leading or emerging business sectors.
- The Technical Assistance for Underrepresented Businesses Program to provide funding to increase technical assistance to underrepresented businesses through a competitive grant program. The program is intended to support culturally specific organizations by increasing their technical assistance capacity.
- The Oregon Rural Capacity Fund established by HB 2345 to provide grants to Economic Development Districts for the purpose of providing those districts with the resources to assist rural jurisdictions in learning about, applying for, and managing grants and other funding opportunities that can be used to support workforce, infrastructure, economic and community development.
- The Loan-loss Reserve Program established by HB 2266 to provide funding for loan-loss reserves of qualified lenders for the purpose of increasing lending to business owners who currently lack access to capital to start or grow their business.

- The Disadvantage and Emerging Small Business Loan Fund established by HB 2266 to make direct loans to certain eligible businesses that have been certified by the Certification Office for Business Inclusion and Diversity.

<u>Revenue Sources and Relationships</u>
Revenues for the 2021-23 biennium include General Fund, Other Funds, and Federal Funds. Federal Funds from the American Rescue Plan Act are transferred to OBDD by the Department of Administrative Services and budgeted as Other Funds expenditures. Ongoing program area activities are primarily financed by Lottery Funds allocated to support business development and innovation programs. General Fund support that had been limited to primarily the Solar Incentivization Program and the University Innovation Research Fund has been significantly expanded with the establishment of new programs. Other Funds revenues of $19.3 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. The Certification Office for Business Inclusion and Diversity is funded with Other Funds from state agency assessments ($2.6 million) and revenue transferred from ODOT ($1.4 million). Federal Funds expenditures are funded from federal grants, including the State Small Business Credit Initiative grant and the State Trade and Export grant.

<u>Budget Environment</u>
The Business, Innovation, and Trade (BIT) Division includes the agency's primary initiatives to create and retain jobs, and its budget has been substantially expanded in recent years. The economy of Oregon was slow to recover from the economic downturn following the 2008-2009 financial crisis. The Legislature realigned the OBDD programs at that time to provide the framework for an efficient recovery. A robust recovery was then hard hit by the COVID-19 pandemic, with many businesses, sectors, and individuals severely impacted. Within this environment, the Legislature has expanded the programs and funding for the BIT Division.

Budget expansion has continued through additional investments in existing programs and the addition of new programs, with the total BIT budget now exceeding $269 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.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget of $269.4 million total funds represents a 111.3% increase from the 2019-21 legislatively approved budget. General Fund and Lottery Funds support of $145.8 million is a $69.3 million, or 90.6%, increase over the prior biennium level. This unprecedented increase in funding and expenditures is driven by new programs established by the Legislature in the 2021 session and the availability of federal American Rescue Plan Act funds to support struggling industries and communities during the COVID-19 pandemic.

General Fund supported programs established in the 2021 session totaled $54.5 million and include:
- The Emergency Opportunity Program. The Legislature provided $25 million General Fund to support flexible grants to public and/or private entities for pilot projects targeted at facilitating private investment in Oregon, with a focus on leading or emerging business sectors. The funding is intended to complement efforts under other OBDD programs or funds. Examples of potential uses include public infrastructure such as rail, road, docks, terminal, or airport improvements; power infrastructure; natural resources/wetland mitigation; and other projects enabling investment and long-term public return and benefit. Private sector projects might involve areas such as manufacturing, emerging energy, environmental, supply chain, and feedstock development.
- The Technical Assistance for Underrepresented Businesses Program. An investment of $9 million Lottery Funds was provided to increase technical assistance to underrepresented businesses through a competitive grant program. The monies will be used to fund grants to culturally specific organizations to increase their

technical assistance capacity. These organizations are uniquely positioned to deliver business technical assistance through staff with similar cultural, language, and lived experiences to the communities that they serve. The funding provided represents a one-time investment that will allow the agency to determine the ongoing capacity and need that will inform future funding requests for the program.

- The Oregon Rural Capacity Fund established by HB 2345 to provide grants to Economic Development Districts for the purpose of providing those districts with the resources to assist rural jurisdictions in learning about, applying for, and managing grants and other funding opportunities that can be used to support workforce, infrastructure, economic and community development. $500,000 General Fund was provided for deposit into the fund and a corresponding $500,000 Other Funds expenditure limitation increase was budgeted for the expenditure of the funds.
- The Loan-loss Reserve Program established by HB 2266 to provide funding for loan-loss reserves of qualified lenders for the purpose of increasing lending to business owners who currently lack access to capital to start or grow their business. A $10 million General Fund appropriation is included in the program's budget for the operation of the program.
- The Disadvantage and Emerging Small Business Loan Fund was established by HB 2266 to make direct loans to certain eligible businesses that have been certified by the Certification Office for Business Inclusion and Diversity and referred to the department by a technical assistance provider. HB 2266 created the fund and included a $10 million General Fund appropriation to capitalize the fund. A matching Other Funds expenditure limitation increase of $10 million was provided for the agency to expend the monies in the fund, which will be spent as Other Funds.

Additional individual enhancements to the OBDD budget approved for the 2021-23 biennium include:

- Expenditure limitation of $10 million Lottery Funds to provide a grant to Oregon21, LLC for the direct costs of the World Track and Field Championship in Eugene.
- A $5 million General Fund appropriation for deposit in the University Innovative Research Fund to provide grants for matching funds that support innovation or commercialization of technology developed at Oregon's public universities and Oregon Health and Science University.
- $4 million General Fund for the provisioning of grants to local governments to aid in the short and long-term efforts to recover from the 2020 wildfire season. The funding represents a reestablishment of funding that was provided for this same purpose by the Emergency Board in January 2020 but remained unexpended at the end of the 2019-21 biennium, plus an additional $2 million due to anticipated program need. The funding is available for a variety of activities that include, but are not limited to human resources, land use planning, infrastructure planning, FEMA recovery applications, building permit application processing, financial and administrative program support, and translation services.
- Increased expenditure limitation of $1 million Lottery Funds for the Small Business Development Center program. The additional funding provides a total program budget of just over $5.6 million.
- Increased expenditure limitation of $750,000 Lottery Funds for the Manufacturing Extension Partnership.
- $300,000 Lottery Funds for professional services contracts to provide for a trade office representative in Canada. The services are intended to provide promotion of Oregon small business exports to Canada and provide business development services to Oregon producers wanting to transact business with Canada.
- Federal Funds expenditure limitation is increased by $11 million to allow the agency to expend available grant fund from the U.S. Economic Development Administration for the Credit Enhancement Program.

The Legislature also included $2 million Lottery Funds to continue, make ongoing, and expand funding that was provided in the past three biennia to support entrepreneurship-based economic development in rural communities. The program makes grants to rural communities to create programs that strengthen rural entrepreneurial ecosystems to support business activity in the local area. Programs are tailored to the individual needs of the communities that they serve. Funding is provided based on a competitive request for proposal process. In addition to the grant awards, the program has provided needed expertise to grant recipients through contracted professional services to supplement local capacity and skills. Associated with this increased funding, the Legislature included a budget note requiring a report be made to the Joint Committee on Ways and Means that provides a comprehensive overview of the program's operations during the 2021-23 biennia and a review of past biennia funding.

Other Funds expenditure limitation was increased by $50 million in the 2021-23 budget to allow the program to expend American Rescue Plan Act funds to provide grants to local independent movie theaters and entities in Oregon's live events industry to support their recovery from business closures due to the pandemic. Approximately $5 million is intended for distribution to small and community movie theaters. Remaining funds are to be distributed to support the live events industry, including live event operators, music, cultural and community venues and other entities supporting live events. Grants made to organizations for subsequent distribution to individual entities are eligible for administrative costs related to the distribution of funding. All qualifying entities are required to self-certify as to their need being directly related to the COVID-19 pandemic.

In conjunction with the new and expanded programs, budgetary adjustments were approved for to expand staffing capacity. These adjustments for the Business Innovation and Trade Division include: Lottery Fund expenditure limitation of $480,743, General Fund of $85,845, and Other Funds expenditure limitation of $461,286 to support five new permanent positions (5.00 FTE): three regional project managers, a loan specialist, and a program analyst.

Legislatively Approved Budget

The legislatively approved budget for the Business, Innovation and Trade program increased by $23.6 million General Fund, $1 million Lottery Funds, $58.4 million Other Funds and $1 million Federal Funds for a total budget increase of $84 million, or 31.2%, from the 2021-23 legislatively adopted budget. Position authority was increased by 13 positions (5.58 FTE) for the BIT program.

A one-time General Fund appropriation of $15 million was included in SB 1579 during the 2022 legislative session to establish the Economic Equity Investment Fund, which will provide funding for the Economic Equity Investment Program. Expenditure limitation of $15 million Other Funds for payment of expenses from the fund was also included. The Economic Equity Investment Program, awards grants to organizations providing culturally responsive services supporting economic stability, self-sufficiency, wealth building and economic equity among disadvantaged individuals, families, businesses, and communities in Oregon. Eight limited duration positions (3.00 FTE) were authorized to be established for the administration of the program.

A General Fund appropriation of $6 million for deposit in the Eastern Oregon Border Economic Development Board Fund was approved along with the establishment of a corresponding $6 million Other Funds expenditure limitation from the fund to allow OBDD to transfer the monies in the fund to a third-party administrator that is under contract with the Eastern Oregon Boarder Economic Development Board, for the purpose of operating grant and loan programs to enhance and expand workforce development and/or economic development in the region covered by the board.

A General Fund appropriation of $2 million was also provided to the Department for the provisioning of grants to local governments to aid in the short and long-term efforts to recover from the recent wildfire seasons. The funding is available for a variety of activities that include, but are not limited to human resources, land use planning, infrastructure planning, FEMA recovery applications, building permit application processing, financial and administrative program support, and translation services.

The budget increase included a $600,000 General Fund appropriation and the authorization to establish a limited duration position (0.25 FTE) for the Department to complete a specified number of emerging sector market analyses in coordination with Oregon market advocates for each sector. These sectors are:

- Organic agriculture and organic products
- Cannabis
- Commercial music including performance, manufacturing, distribution and other sales

- Ocean resources and the blue economy
- Live performance (theater, arts, other live events)

The analyses are intended to include, but not be limited to identifying and discussing policies and actions that may be taken to increase the competitiveness and support the growth of the sector, analysis of the competitive economic strengths and weaknesses of the sector in Oregon, evaluation of revenues that the State of Oregon derives from the sector, indirect and direct economic impacts, demographic details such as race, wage, and geographic distribution, and, as applicable, recommendations for actions to be taken in response to changes in federal regulations. Increased expenditure limitation of $641,475 Lottery Funds and the authorization to establish three permanent, ongoing positions (1.75 FTE) to be used in conjunction with organizational adjustments to address program administration capacity, span of control, and program delivery issues.

Increased Other Funds expenditure limitation included $36,795,418, for the expenditure of American Rescue Plan Act Capital Projects Funds received by the Oregon Department of Administrative Services and transferred to the Oregon Business Development Department for deposit in the Broadband Fund.

Federal Funds expenditure limitation of $1 million, and the authorization to establish a limited-duration statewide recovery coordinator position (0.58 FTE) was approved for the expenditure of anticipated grant monies from the U.S. Department of Commerce, Economic Development Administration. Approximately half of the funding is for an investment map to guide broadband investment strategy and a broadband planning map. The remaining portion will be used for the implementation of findings and recommendations of the COVID-19 Equitable Economic Recovery Plan currently in development by the agency.

Compensation plan adjustments for the program totaled $12,447 General Fund, $308,109 Lottery Funds, $291,966 Other Funds, and $15,196 Federal Funds.

Infrastructure

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	16,447,000	--	72,957,734	93,390,179
Lottery Funds	6,640,537	1,927,379	4,384,506	4,765,167
Other Funds	489,012,933	465,302,294	1,068,590,531	1,090,596,101
Other Funds (NL)	4,496,436	204,332,914	314,332,914	314,332,914
Federal Funds	61,199,894	36,430,238	54,806,832	54,843,130
Total Funds	**577,796,800**	**707,992,825**	**1,515,072,517**	**1,557,927,491**
Positions	30	34	38	38
FTE	30.00	34.00	36.92	36.92

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 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 have been regularly approved to capitalize revolving loan funds to make infrastructure loans and grants. Lottery bond proceeds also support designated infrastructure projects, and Regional Solutions projects. 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 limited Other Funds and not as 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. 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 these 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 COVID-19 pandemic created headwinds for both revenues and capacity of local governments to engage in community and economic development. The pandemic also brought a sharp reduction in Lottery Fund projected revenues due to the closure of most restaurants and bars equipped with video lottery terminals. Although $106.4 million in lottery revenue bonds were authorized for issuance to fund Infrastructure Program projects during the 2019 legislative session, none of those bond sales were completed as initially planned due to the declining Lottery Fund revenue projections.

With the development and distribution of COVID-19 vaccines, limited economic activity resumed and is projected to continue through the 2021-23 biennium. Many local governments and sectors in the economy continue to struggle as they recover from the pandemic and, in some cases, from devastating wildfires. Lottery Fund revenues are project to continue to increase through the 2021-23 biennium and increased General Fund revenue projections have improved the ability of the Legislature to provide financial assistance.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $1.52 billion total funds represents an increase of $937.3 million, or 162%, over the 2019-21 legislatively approved budget. The legislatively adopted budget includes $73 million of net new General Fund support, $275.7 million of American Rescue Plan funding for local government water and wastewater infrastructure projects statewide, $120 million of American Rescue Plan funding for broadband infrastructure, and $265 million in bond funded projects.

The Legislature provided a $50 million General Fund appropriation to the agency for deposit in the Special Public Works Fund (SPWF). The SPWF provides loans and grants for publicly owned facilities that support economic and community development in Oregon. Funds are available to public entities for planning, designing, purchasing, improving, and constructing publicly owned facilities. This appropriation is in addition to the $50 million in bond proceeds authorized for the SPWF, which is detailed below. In the prior biennium, the Legislature had approved lottery revenue bond proceeds of $30 million for deposit in the SPWF, but those bonds were not sold.

General Fund appropriations were also made to aid communities significantly impacted by the 2020 wildfire season. A total of $4,326,074 General Fund was approved to make grants to specific local governments for financial assistance for their building and planning departments' staffing needs. The individual recipients are:

- Lane County – $755,319
- Linn County – $275,000
- Lincoln County – $190,000
- Douglas County – $375,000
- Marion County – $975,000
- Jackson County – $710,000
- City of Talent – $280,000
- City of Phoenix – $677,755

A total of $772,000 General Fund was approved for the purpose of making grants for staffing and operational needs that includes $251,000 for the City of Gates, and $521,000 for the City of Detroit.

Additionally, an $80,000 General Fund appropriation was provided to be distributed as a grant to Crawford Electric company to reimburse the company for the cost of temporary power poles that we used immediately following the 2020 wildfires.

General Fund appropriations were made in the prior biennium for two projects that had been approved for funding via lottery revenue bonds in that biennium when it became apparent that lottery revenue bonds would not be issued. The funding for both of those projects was fully drawn upon prior to the end of the biennium. As a result, the 2021-23 budget includes a General Fund appropriation of $7 million for a grant to the City of Sweet Home for a wastewater treatment plant upgrade and a General Fund appropriation of $5,648,000 for a grant to the Confederated Tribes of the Warm Springs for water system upgrades and a wastewater treatment plant upgrade. These appropriations are renewals of the General Fund appropriations made for the same purposes in the 2019-21 biennium.

HB 2518 (2021) established a program to provide forgivable loans to private owners or operators for the reimbursement of eligible costs incurred for the completion of removal or remedial actions at brownfields. A $5 million General Fund appropriation to the agency was included in the legislation for the program. A report detailing the program's operations and loan recipients is required to be delivered to an appropriate interim committee of the Legislature before January 1, 2023. The Legislature also approved the establishment of two limited-duration positions (0.92 FTE) for program administration.

Increased Lottery Fund expenditure limitation of $1.6 million was approved for the Infrastructure Division to provide a grant to the Port of Port Orford for the Seafood Hub Redevelopment Project. The project centers on the creation of a seawater system that would allow the Port to provide sustainable operational support to the fishing fleet, facilities for on-site marine research, and ocean related recreational opportunities. Additional funding to support the total project cost of $7,657,020 include $5,275,020 from the U.S. Economic Development Administration and $800,000 in local funds.

An allocation of $275,722,721 ARPA State Fiscal Recovery Funds was provided to the agency along with a corresponding increase in the program's Other Funds expenditure limitation for grants to local governments for critical drinking water, storm water, and sanitary sewer projects. Forty-eight individual projects were approved to receive funding. Project funding ranged from $100,000 for the City of Vale's wastewater treatment facility improvements to $50 million for Marion County's north Santiam septic to sewer project.

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. The adopted budget includes a fund shift of $875,000 from Other Funds to Lottery Funds to support the four positions authorized to operate the Broadband Office. Additionally, the program was provided $120 million Other Funds expenditure limitation for the expenditure of ARPA, Capital Projects Funds, received by the program.

Lottery revenue bonds were authorized to be issued for four programs in the Infrastructure Division:

- Special Public Works Fund - Lottery revenue bonds were approved for issuance to provide a net of $50 million to capitalize the Special Public Works Fund (SPWF). The fund is used 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. A corresponding increase of $50 million in Other Funds Nonlimited authority was provided for the expenditure of the funds for SPWF projects. Additionally, the budget includes $648,200 Other Funds for bond costs of issuance. Bonds authorized in the prior biennium that were anticipated to provide a net of $30 million to capitalize the SPWF were not issued due to declining Lottery Fund revenue projections.
- Levee Grant Program Fund - Net bond proceeds of $15 million and a corresponding increase in Other Funds expenditure limitation allow the department to provide grants for levee projects during the upcoming biennium. Anticipated bond cost of issuance is $211,079 Other Funds is included in the budget. In the prior biennium, $15 million net bonding was authorized, but the bonds were not issued due to declining Lottery Fund revenues.
- Brownfields Redevelopment Fund – Lottery revenue bonds were approved for issuance to provide a net of $10 million to capitalize the Brownfields Redevelopment Fund for cleanup and redevelopment of brownfields properties. A corresponding increase in the Other Funds Nonlimited authority was provided for the expenditure of the funds and an increase in Other Funds limitation of $180,480 was provided for bond costs of issuance. In the prior biennium, lottery revenue bonds to produce a net $5 million to capitalize the Brownfields Redevelopment Fund were authorized, but not issued due to declining Lottery Fund revenues.
- County Fair Capital Improvement Projects - Lottery revenue bonds were approved for issuance to provide a net of $10 million to be distributed as grants for county fair capital improvements. Corresponding increases in expenditure limitation of $10,000,000 Other Funds for the expenditure of the funds and $214,553 Other Funds for bond issuance costs were included in the budget.

General Obligation bonds were authorized to be issued for the Seismic Rehabilitation Grant Program. Article XI-M and XI-N bonds were authorized to be issued to produce a net of $160 million for the Seismic Rehabilitation Grant Program to issue competitive grants for the seismic rehabilitation of critical public buildings. The approved amount includes $110 million for seismic rehabilitation grants to schools and $50 million for grants to emergency services facilities. Gross bond revenues include $2.05 million for bond issuance costs. Debt service on the bonds for the 2021-23 biennium is anticipated to be $6.4 million.

An increase in the program's Other Funds expenditure limitation of $20 million was included in the budget to allow the distribution of net proceeds from General Obligation bonds that were authorized for issuance in the 2020 second special session for the City of Salem Drinking Water System Improvements. Expenditure limitation had been provided in the prior biennium for the same purpose, however, due to the late Spring 2021 issuance of the bonds, the funding was not able to be distributed prior to the end of the biennium.

In conjunction with the new and expanded programs, budgetary adjustments were approved for the Oregon Business Development Department to expand staffing capacity. These adjustments for the Infrastructure Division include General Fund of $219,660, and Other Funds expenditure limitation of $219,660. The funding is to support the establishment of a Federal Grant Manager position (1.00 FTE) and an Operations and Policy Analyst position (1.00 FTE).

Legislatively Approved Budget
The legislatively approved budget for the Infrastructure program increased by $42.9 million, all funds, or 2.83% from the legislatively adopted budget. Position authority changes included the addition of 13 positions totaling 5.58 FTE.

Several budgetary adjustments were made for the Infrastructure Division related to the expenditure of funding that was authorized in the prior biennium but was not fully expended before the end of that biennium. Adjustments to expenditure limitations for Lottery, Other, and Federal Funds are for fund balances carried forward from prior biennia. The General Fund appropriations mirrors those amounts appropriated in the 2019-21 biennium but reverted to the General Fund at the close of the biennium prior to being expended.

The individual adjustments include:

- $283,034 Lottery Funds expenditure limitation for remaining contractual payments associated with the funding of the Columbia Corridor Drainage Districts Joint Contracting Authority project, Levee Ready Columbia. This action will allow the agency to expend the remaining Lottery Funds balance carried-forward from the prior biennium from the original $500,000 allocation for this project.
- General Fund of $89,479 to re-establish funding for the completion of financial support to the Confederated Tribes of the Warm Springs Reservation of Oregon for improvements to the Warm Springs Wastewater Treatment Plant, installation of water meters, and improvements to the water distribution system. Total project costs of $7.8 million were provided in the prior biennium through a $3.6 million General Fund allocation from the Emergency Board and a $4.2 million General Fund appropriation in SB 5723 (2020 second special session) the amount appropriated in this bill represents the unspent portion of those funds.
- $2,940,041 Other Funds expenditure limitation from the Tide Gate Grant and Loan Fund to allow the agency to expend the residual fund balance remaining in the fund from allocations of $3 million in Lottery Funds that were transferred to the fund in the prior biennium.

A one-time appropriation of $984,000 General Fund was made for distribution to the City of St. Helens for financial support required to complete a number of activities related to the fill and redevelopment of a portion of the city’s wastewater lagoon connecting the city’s downtown riverfront district with the city-owned industrial park including a technical feasibility study, critical infrastructure resiliency assessment, and addressing environmental, public health, and community development considerations.

A one-time appropriation of $2 million General Fund for distribution to the Portland Japanese Garden was added to support the construction of the International Japanese Garden Training Center that supports programs, collaborations, and experiential education for youth and adults. This state support represents roughly 8% of the total project costs.

A one-time appropriation of $15 million General Fund for distribution to the Oregon International Port of Coos Bay was made to support the continuation and final completion of the engineering and design work related to the deepening and widening of the Federal Navigation Channel at Coos Bay to support existing businesses and promote new business opportunities

The budget includes a one-time General Fund appropriation of $835,000 for distribution to the Crescent Sanitary District. This action was coupled with corresponding reductions in the transfer from the Department of Administrative Services, and the Other Funds expenditure limitation for, American Rescue Plan Coronavirus State Fiscal Recovery Fund monies provided to the Department for distribution to the Crescent Sanitary District. These actions affected a change in the project funding to allow the Sanitary District to use awarded funding to retire debt associated with the underlying project with no change to the total amount of state support being provided.

A one-time $1.5 million General Fund appropriation was included to provide a grant to the Historic Rivoli Theater Performing Arts Center Restoration Coalition for work on the Rivoli Theater restoration as a part of a package of investments in rural infrastructure.

The approved budget includes an allocation of $18,193,388 ARPA State Fiscal Recovery Funds (Other Funds) for the provision of grants to local governments and other authorized organizations in the following amounts, for the following water related infrastructure projects:

- $160,000 to the City of Garibaldi for a wastewater master plan.
- $201,128 to the City of Garibaldi for smart water meters.
- $7,000,000 to Hyak Tongue Point, LLC for a 1500 Metric Ton Mobile Lift Project.
- $1,150,260 to the City of Reedsport for a flood reduction resiliency project.
- $1,400,000 to the City of Waldport for wastewater treatment plant disinfection system improvements.
- $2,500,000 to the City of Mill City for sewer improvements.
- $757,000 to the City of Aumsville for drinking water system improvements.
- $2,250,000 to the City of Lafayette for a reservoir project.
- $2,500,000 to the City of Falls City for a wastewater treatment facility.
- $275,000 to the City of Merrill for water line improvements.

A reallocation of funding was also included for ARPA Coronavirus State Recovery Fund monies received by the Department. Other Funds expenditure limitation of $15 million that had been provided to the agency for distribution of ARPA monies to Lincoln County for the Panther Creek septic and stormwater project was reduced by $11 million and a new, corresponding $11 million Other Funds expenditure limitation was established to allow the Oregon Business Development Department to distribute the monies to the Panther Creek Water District for regional drinking water quality improvements.

An additional increase of $1.5 million Other Funds expenditure limitation was approved for the expenditure of monies transferred to the Broadband Fund by the Public Utilities Commission, as required by statute from the Universal Service Fund, for the planning and development of broadband infrastructure.

Implementation of compensation plan adjustments for the Infrastructure division total $23,966 General Fund, $97,627 Lottery Funds, $207,141 Other Funds, and $36,298 Federal Funds.

Film and Video Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Lottery Funds	1,147,182	1,307,330	1,419,830	1,419,830
Total Funds	**1,147,182**	**1,307,330**	**1,419,830**	**1,419,830**

<u>Program Description</u>

The Film and Video Office is a semi-independent agency for Oregon's statewide promotion of the film, video, and multimedia industries. State support for the agency is through the pass-through of Lottery Funds to the Film and Video Office via OBDD, but OBDD does not provide operational oversight of the Office. 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 promotes the production of media projects in Oregon and recruits film productions through its marketing efforts, assists 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. The Office administers two film incentive programs financed through tax credits which impact the state budget as reductions in revenue: the Oregon Production Investment Fund and Greenlight Oregon Labor Rebate.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $1.4 million Lottery Funds for the Film and Video Office represents a 23.8% increase over the prior biennium. An increase in Lottery Funds support of $112,500 was provided by the Legislature to fund workplace development and paid placement programs, and regional event sponsorship.

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. HB 2456 (2021) changes the ability of the tax credit purchaser to use the tax credit certifications for current or immediately preceding tax years under specified circumstances, increasing the present value of the tax credits. 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.

Although projected to have a minimal fiscal impact, HB 3010 (2021) placed additional requirements on companies seeking reimbursement from the OPIF by requiring qualified companies to have a written policy for diversity, equity, and inclusion, and to make good faith efforts at hiring individuals from underrepresented groups. The measure also requires qualifying companies to establish a process for addressing claims related to harassment, discrimination, and other misconduct.

Arts

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,621,778	4,089,492	4,069,521	4,092,881
Lottery Funds	1,806,250	--	--	--
Other Funds	17,024,355	11,200,734	20,696,658	22,441,720
Federal Funds	2,031,548	2,119,144	2,119,144	2,922,644
Total Funds	**24,483,931**	**17,409,370**	**26,885,323**	**29,457,245**
Positions	10	10	10	10
FTE	9.50	9.50	9.50	9.50

Program Description
The Arts program includes the Oregon Arts Commission and the Trust for Cultural Development (Oregon Cultural Trust). The Arts Commission was established in 1967 and became a part of OBDD in 1993. 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. Nine commission members, appointed by the Governor, develop statewide arts policy, and oversee the grant-making activities of the Arts Commission. 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. Commission activities include 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 Trust for Cultural Development (Oregon Cultural Trust) was established in 2001 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 ($25 per annual renewal or $50 per biennium. Increased from $15 per annual renewal by HB 4061 [2020 regular session]) to the Cultural Trust for marketing and promotional costs. In the 2021-23 biennium, the Trust estimates receiving approximately $745,000 in cultural license plate revenue.

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 2021-23 projected ending fund balance for the Trust is just over $34.7 million. In the 2019 session, the Cultural Trust Tax Credit was extended through January 1, 2026.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $26.9 million for the Arts Division is a $2.4 million, or 9.8%, increase over the prior biennium level. General Fund support for the program is maintained at the current service level, as adjusted. Other Funds expenditures are increased by a net $5 million from the prior biennium after accounting for the phase out of prior biennium bond funded cultural capital projects and new bond authorizations for cultural organization capital projects in the 2021-23 biennium that include:

- $750,000 for the Maxville Heritage Interpretive Center - Preservation of Maxville Townsite.
- $2,000,000 for the Artists Repertory Theatre.
- $600,000 for the Josephy Center for Arts and Culture.
- $295,000 for the Eastern Oregon Regional Theatre - Baker Orpheum Theatre Restoration.
- $1,250,000 for the Chehalem Cultural Center - Performing Arts Wing.
- $750,000 for the Siltez Tribal Arts and Heritage Society.
- $1,600,000 for the Jon G. Shedd Institute for the Arts.
- $600,000 for the Little Theatre on the Bay - Liberty Theatre Expansion.
- $304,378 for the Columbia River Maritime Museum - Lightship Columbia Preservation.
- $1,000,000 for the Portland Art Museum - Rothko Pavilion.

Bond cost of issuance for the cultural organization capital projects is estimated at $361,350, Other Funds. Due to the scheduling of bond sales supporting the projects, no additional debt service is budgeted in the 2021-23 biennium, as debt service payments will not begin until 2023-25.

Legislatively Approved Budget
Increased expenditure limitation of $1,680,000 Other Funds was approved for the Arts and Cultural Trust to expend monies provided by the Oregon Community Foundation for two programs. $1.5 million of the total supports a grant program to provide relief funding to Oregon artists who have experienced financial hardship during the COVID-19 pandemic due to cancellations of exhibitions, performances, rehearsals or other activities with a stipend, events, teaching opportunities, book signings, or other professional presentation opportunities. The remaining $180,000 will be distributed to each of the Cultural Trust's 36 County Cultural Coalitions in support of their Cultural Plan, which includes grant awards to cultural nonprofits, artists, and, as applicable, to those populations who have been disproportionately impacted by COVID-19 and for the continued development of programs and services.

Additionally, an increase of $803,500 Federal Funds expenditure limitation was provided for the Arts Program to expend federal funding received from the NEA to support nonprofit arts programs and services including the provision of operating support grants and program administration.

Compensation plan adjustments for the program included $23,360 General Fund and $65,062 Other Funds. No changes to the number of authorized positions or FTE were made.

Lottery and General Obligation Bond Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	54,475,254	66,929,498	74,062,166	74,053,211
Lottery Funds	45,764,621	56,337,140	46,389,741	42,985,875
Other Funds	2,735,716	--	5,800	3,418,634
Other Funds (NL)	88,265,746	--	--	--
Total Funds	**191,241,337**	**123,266,638**	**120,457,707**	**120,457,720**

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.

General Obligation bonds authorized for issuance in the 2021-23 biennium to support the Seismic Rehabilitation Grant Program included:
- $110 million under Article XI-M for seismic rehabilitation grants for public school buildings.
- $50 million under Article XI-N for seismic rehabilitation grants for emergency services facilities.

Lottery revenue bonds included:
- $10 million for the Brownfields Redevelopment Fund.
- $50 million for the Special Public Works Fund.

- $10 million to support grants for county fair capital improvement projects.
- $15 million to support grants from the Levee Grant Program Fund.
- $9.2 million for grants to specified cultural facilities.

Of the Lottery revenue bonds authorized, the $9.2 million for specified cultural facilities are scheduled to be issued in spring 2023, so no related debt service payments are due in the 2021-23 biennium. The projected debt service on the remaining Lottery revenue bonds for the 2021-23 biennium totals $6.9 million.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget includes $74.1 million General Fund to pay debt service on general obligation bonds. General Fund debt service represents a 36% increase over the prior biennium. In addition to the debt service on currently outstanding bond issuances, this amount includes $6.4 million in additional debt service associated with 2021-23 bond authorizations for the Seismic Rehabilitation Grant Program and $3.3 million in debt service associated with issuance of General Obligation bonds that were authorized by SB 5721 (2020 second special session) for upgrades to the City of Salem drinking water system.

The 2021-23 legislatively adopted budget includes $46.4 million Lottery Funds for debt service payments on previously issued and outstanding lottery bonds, and for new bonds authorized in the 2021-23 biennium.

Interest earnings on general obligation bond proceeds produced $5,800 that is made available to offset General Fund for debt service. The 2021-23 budget includes the establishment of an Other Funds limitation of $5,800 for the payment of debt service obligations from these proceeds.

Legislatively Approved Budget

A reduction in budgeted debt service was made totaling $3.4 million Lottery Funds and $8,955 General Fund by utilizing unanticipated excess bond proceeds and interest earnings on fund balances. A corresponding increase in Other Funds expenditure for debt service of $3.4 million was made to allow the agency to use these funds for the payment of debt service obligations in place of new funding.

EMPLOYMENT DEPARTMENT

Analyst: Deister

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	9,787,440	2,745,191	47,103,458	48,765,505
Other Funds	230,294,735	203,212,822	279,153,141	285,661,087
Other Funds (NL)	6,021,119,206	5,058,847,795	5,058,847,795	5,058,847,795
Federal Funds	259,627,887	247,835,817	293,520,514	310,599,469
Federal Funds (NL)	10,571,008,796	131,179,119	1,081,179,119	1,081,179,119
Total Funds	**$17,091,838,064**	**$5,643,820,744**	**$6,759,804,027**	**$6,785,052,975**
Positions	2,574	1,917	3,297	3,304
FTE	1,946.05	1,684.50	2,248.02	2,253.62

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; and
- The Paid Family and Medical Leave Insurance program, created through HB 2005 (2019) is currently being implemented, and will provide eligible employees with a portion of wage replacement when the employee is out on family or medical leave.

OED also provides administrative support to the independent Office of Administrative Hearings (OAH), which conducts contested case hearings for over 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; communications; and human resources functions.

The Modernization program allows the monitoring of multi-year planning and execution costs related to modernizing the Employment Department's aging information technology systems and business process infrastructure. Modernizing these systems and processes is expected to be a multi-year endeavor, and expenditures pertaining to this effort support managing budget and position authority devoted to the project.

The passage of HB 2005 in the 2019 legislative session resulted in the creation of a paid family and medical leave insurance program (PFMLI) to provide eligible employees with a portion of wage replacement when the employee is out on family or medical leave. HB 3398 (2021) changed operative dates for HB 2005, and established the following deadlines: established operative dates for administrative rules (September 1, 2022), beginning to collect contributions (January 1, 2023), employer assistance grants for small employers (September 3, 2023); and payment of benefits (September 3, 2023); the bill specifies that repayment of General Fund appropriated to OED for start-up expenses of the program must be repaid by June 30, 2023.

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 2021-23 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 $4,149,249,671 in June of 2021. 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 2021-23 biennium, the Department expects to have $52.8 million available, based on $14.4 million of estimated new revenue and $38.4 million of estimated carryover from 2019-21.
- 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. OED assumes that the diversion will generate $116.7 million, which supplements an estimated $22.8 million in carryover from 2019-21. 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 and used for costs associated with the prevention, discovery, and collection of those overpayments. HB 3206 (2021) expanded the use of these funds. In 2019-21, OED projects $4.8 million in interest collections, supplementing an estimated $37.5 million in carryover from 2019-21.
- 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, 2021, the balance of these funds was projected at $81.7 million.
- Supplemental Nutritional Assistance Program (SNAP) Employment and Training funds are passed to OED from the Department of Human Services, which receives a grant from U.S. Department of Health and Human Services. OED is one of several partners that are reimbursed, in whole or in part depending on the specific programs the clients are served by, for employment and training services provided to SNAP recipients. The legislatively adopted budget includes $27.2 million in revenue related to SNAP services.
- The projected employer and employee collections for the PFMLI program for the 2021-23 biennium totals $259.9 million, dedicated to paying program benefits and administrative expenses, including repayment of General Fund appropriated by the Legislature for the program's start-up costs.

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 Administrative Grant funds may only be used to pay for administration of the UI program. Based on its May 2021 revenue forecast, the Employment Department anticipates $142.6 million will be distributed by the U.S. Department of Labor for the 2021-23 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 2021-23 is $12 million.

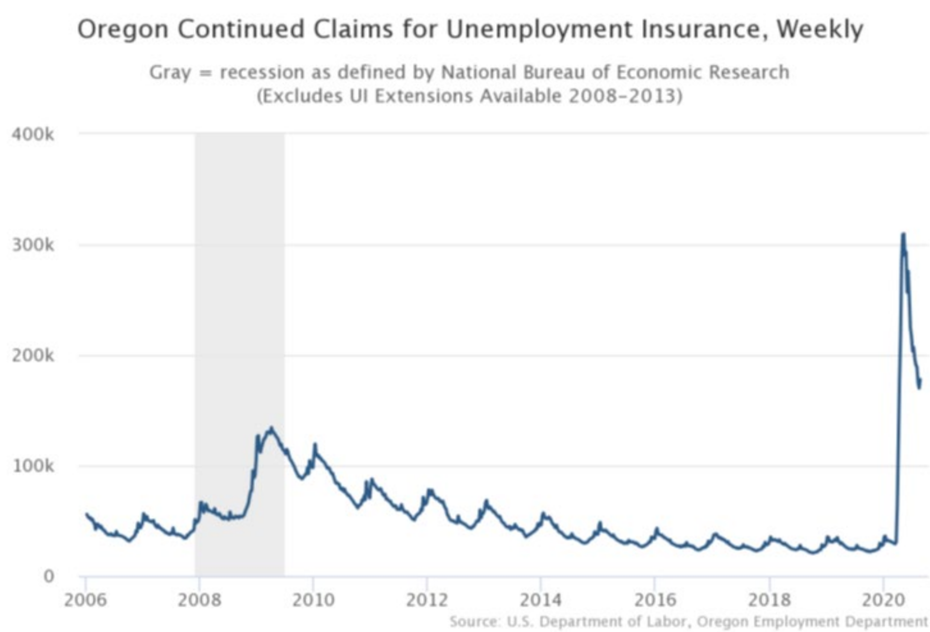
- Wagner-Peyser – $16.1 million is expected for Business and Employment Services provided by the Workforce Operations and Research division under the Wagner-Peyser Act.
- The Trade Adjustment Act funds training and case management services for displaced workers. In 2021-23, $30 million is anticipated from this source.
- Estimates of funding for federal unemployment insurance benefits – payments to federal workers and trade impacted workers – are expected to amount to $63.3 million in 2021-23.
- Bureau of Labor Statistics funding for workforce and economic research is anticipated to be $2.2 million in 2021-23.
- Workforce Information Grant funds are provided for investing in research and distributing labor market information. An estimated $960,000 is anticipated for 2021-23.
- 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 2021-23.
- Foreign Labor Certification Grant funds are anticipated at $700,000.
- Federal funding for veterans' job placement services is assumed to be $6 million for the 2021-23 biennium.

General Fund has been appropriated for start-up costs associated with the PFMLI program. Since the 2019-21 biennium, these appropriations total $56.9 million; interest free repayment will occur when collections are sufficient, anticipated by June 30, 2023, in alignment with HB 3398 (2021).

Budget Environment

Economic conditions and trends directly affect OED's funding, policy decisions, and workload. During times of economic recession, high unemployment rates increase the number of clients served through unemployment insurance payments and employment services in field offices.

The COVID-19 pandemic severely affected OED. State-wide closures in the spring of 2020 driven by the public health emergency created an unprecedented and immediate spike in unemployment benefit applications, and federal legislation created new programs, with supplemental assistance amounts and rules, along with an entirely new class of eligible applicants -- those who were self-employed or contract workers.



This spike and subsequent efforts by claimants to follow up on their claims overwhelmed OED's phone lines, website, and staffing resources while the agency was simultaneously trying to interpret and apply U.S. Department of Labor guidance, program its aged claim system, communicate and verify eligibility criteria, and process payments. The results were backlogs in UI claims processing, with some claimants waiting months to get information on their claim status or payment, while they may have had little to no ability to generate income. As OED faced intense criticism at the state and federal levels for processing delays and poor communication with claimants and stakeholders, the director of the Department resigned on May 31, 2020 at the request of Governor Brown. The director of the agency's Paid Family and Medical Leave Insurance Division (and former Unemployment Insurance Division Administrator) was immediately appointed as Acting Director. A hiring surge, a weekly media call or briefing, enhanced instructions and information included on the agency's website and social media, agency mailings, and regular communication with legislators trying to assist constituents were some of the strategies employed to address the challenges.

OED continues its methodical planning and procurement, and implementation efforts aimed at replacing its unemployment insurance tax and benefit system technology. Progress was temporarily impacted as the vast majority of management and technology expertise was trained on addressing UI claims resulting from the pandemic. However, as of late spring 2021, business practices have been assessed and mapped, features have been ranked, and business and security requirements determined. OED selected FAST Enterprises as its vendor in December 2020, and after final contract negotiations, software installation and initial configuration began in the summer of 2021.

The Paid Family and Medical Leave Insurance division was created within OED to take on the task of creating a paid family and medical leave insurance program for Oregon workers and employers. OED determined that since the program will share many of the same customers and functions with the state's unemployment insurance program, economies of scale could be realized if PFMLI technology requirements could be incorporated -- though funded separately -- alongside the unemployment insurance tax and benefit system currently under development. PFMLI program rules and business processes are in development, with an eye toward consistency where possible with practices and processes in place for unemployment insurance tax and benefit transactions.

The Department is a member of the Interagency Compliance Network. Member agencies share wage, tax, and reporting information towards 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.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is a 60.5% total funds decease from the 2019-21 legislatively approved budget. This decrease is due to economic improvement and fewer projected claims in 2021-23 compared to 2019-21, which was dominated by the COVID-19 pandemic.

The 2021-23 budget includes reductions common to all agencies, including state government service charges, attorney general rate adjustments, and savings resulting from statewide consolidation of Microsoft 365 licenses. Position reclassifications were approved across all divisions to enable the Employment Department to better utilize existing position authority, as well as adjustments that were submitted by OED as permanent finance plans but not approved in time to be incorporated into the 2021-23 Governor's Budget. Agency-wide, these position reclassifications and alignments resulted in a net increase of 3 permanent positions (3.00 FTE).

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is an increase of $25.2 million (.0037%) in total funds from the 2021-23 legislatively adopted budget. Of the total, $20.1 million is due to statewide adjustments to employee compensation approved during the 2022 legislative session. The receipt of federal grant funding for services to adult and dislocated workers resulted in the addition of $5.2 million in Federal Funds expenditure limitation and seven positions (5.60 FTE).

Specific spending changes in each division are discussed below.

Unemployment Insurance

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	73,054,031	37,832,482	61,927,426	63,425,768
Federal Funds	176,902,943	166,665,444	198,300,649	206,344,489
Total Funds	**$249,956,974**	**$204,497,926**	**$260,228,075**	**$269,770,257**
Positions	1,630	1,073	1,956	1,956
FTE	1,072.45	854.04	1,149.61	1,149.61

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 2021-23 legislatively adopted budget projects expenditures of Federal Funds to support the UI program in the following amounts:

- UI Administration Grant: $114 million
- Reemployment Services and Eligibility Assessment: $300,000

Budget Environment

In 2020, Oregon went from its lowest ever unemployment rate to its highest ever, almost overnight. Initial claims for the week ending March 7, 2020 numbered 4,251. For the week ending March 28, 2020 the number of initial claims was 56,504. In addition to the sheer volume of claims as a result of the pandemic, came new eligibility directives and compensation programs from the Federal Government based on the Coronavirus Aid, Relief and Economic Security Act. Besides weekly additional payments of $600, then at later times $300, for a specified period of time under Federal Pandemic Unemployment Compensation, Congress approved benefit extensions, waiting week waivers, and eligibility for an entirely new class of worker (contract workers and the self-employed) under Pandemic Unemployment Assistance. The Department's telephone and online claims filing platforms were completely overwhelmed by demand, while computer systems required manual reprogramming for new benefit characteristics and eligibility. Workers with multiple jobs had more complicated claims, which further contributed to backlogs in both payments and -- when applicable -- adjudication.

In an effort to address these issues, OED received expenditure limitation and position authority for more than 1,500 additional positions to meet the demand in claims, adjudication, and specific benefit programs such as Work Share. Public relations professionals and other experts from other state agencies assisted the Department to coordinate and improve communication to stakeholders, including workers, the media, and the Legislature. Improvements were made to phone systems, web communications portals -- including new languages -- and process improvements were made to allow for "benefits while you wait", identity validation, and automated claims processing. From March 2020 through June 2021, the Employment Department paid approximately $9.9 billion to more than 600,000 people, covering 14.8 million weeks of benefits. For purposes of comparison, the amount of benefits forecasted to be paid out in 2021-23 based on OED's December 2020 forecast is $2.3 billion. However, the U.S. Department of Labor was only reimbursing administrative costs of the agency at a rate of about 75% of the cost of processing these claims. The balance in administrative costs was made up by expenditures of other federal UI program funding as well as SEDAF, Penalties and Interest, Fraud Control Fund, and Coronavirus Relief Funds.

Going forward, economic uncertainty remains. As of late Summer 2021, initial claims were down nearly to pre-pandemic levels (to 5,003 for the week ending June 12, 2021). OED acknowledged elevated incidence of fraudulent claims during the height of the pandemic (this situation was not unique to Oregon -- every state experienced elevated levels of fraud), and has declined to publicly comment on the nature, volume, and dollar estimates of fraud experienced since the outbreak of the pandemic, citing security concerns. The extent to which fraud occurred and is being detected and repayments are required is changing regularly.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is a 3.9% increase from the 2019-21 legislatively approved level. Budget adjustments from the current service level consisted of the following:

- Three federally funded positions were added to reflect enhancements of federal funding for the Trade Act program which provides services to displaced workers.
- 861 limited duration positions (287.00 FTE) approved in 2020 were extended to reflect continuing pandemic-related workload, to allow for resolution of backlogged claims, administrative hearings, and final resolution.
- Other Funds expenditure limitation was increased by $872,278 to accommodate administrative expenses of the Employment Department related to carrying out the provisions of SB 172 which limited the window in which non-fraudulent overpayments can be recovered from a claimant to a five-year window, and created the ability for certain overpayments to be waived. Notification procedures and changes to automated systems required the addition of 10 limited duration Revenue Agent 1 positions (5.00 FTE) in the 2021-23 biennium associated with this work.
- The passage of HB 3389 resulted in the addition of 11 limited duration positions (2.57 FTE). The measure changes criteria by which OED determines UI tax contributions and rates, extending the "look-back" for fund adequacy from 10 to 20 years, and allowing a portion of tax contributions to be deferred under certain circumstances. Positions were required in the UI division to determine eligibility and to set up, monitor, and process requests for deferral.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $9.5 million, or 3.7%, total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Shared Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	13,709,923	14,431,680
Other Funds	17,318,859	17,067,459	17,771,446	18,201,429
Federal Funds	34,587,465	35,506,838	36,371,080	37,846,432
Total Funds	**$51,906,324**	**$52,574,297**	**$67,852,449**	**$70,479,541**
Positions	193	161	229	229
FTE	161.67	148.58	207.37	207.37

Program Description

The Shared Services budget structure was created in 2017 and includes the Office of the Director of the Department (including Internal audit); Information and Technology services; Administrative and Business Support (budgeting, accounting, payroll, safety/risk, facilities, and procurement); Legislative Affairs; Communications; and Human Resources.

Revenue Sources and Relationships
This program is funded partially with Federal Funds (54%) 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.

Other Funds utilized in the program come primarily from SEDAF or Penalty and Interest ($6 million). An administrative allowance related to SNAP funds ($1.5 million) is also used for Shared Services. General Fund supports division costs are attributable to the PFMLI program in the 2021-23 biennium; in future years, these expenses will be supported by employer and employee contributions (Other Funds).

Legislatively Adopted Budget
The legislatively adopted budget is a $15.9 million, or 30.7%, increase from the 2019-21 legislatively approved budget. The majority of the increase is due to the ramp up of the Paid Family and Medical Leave Insurance program, expenses for which are primarily supported by General Fund in 2021-23. Fifty-three new permanent positions (52.28 FTE) are added to Shared Services; as new employees are hired in the PFMLI program, there will need to be increases in human resources, IT, procurement, accounting, etc. to support the new program. Savings from the consolidation of Microsoft 365 licensing was realized in this program area, amounting to $979,801 for the biennium.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget is a $2.6 million, 3.9%, total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Workforce Operations

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	79,479,050	81,783,740	94,849,113	97,144,001
Federal Funds	40,098,143	37,300,531	50,521,818	57,743,807
Total Funds	**$119,577,193**	**$119,084,271**	**$145,370,931**	**$154,887,808**
Positions	486	457	555	562
FTE	483.00	457.00	548.76	554.36

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 also 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 39 regional WorkSource Oregon centers located throughout the state, 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 65.2% of the Workforce Operation’s program revenue. The primary source of Other Funds is $45.2 million from SEDAF. SNAP Employment and Training Funds support $25.7 million of total Other Funds expenditures, which represent services to those clients. The primary source of Federal Funds supporting the Workforce Operations program is $21.1 million of Trade Act funds, followed by $10 million of Reemployment Services and Eligibility Assessment funding, $9.2 million of Wagner-Peyser funds, and $5.2 million of funds for

Veterans programs. The Workforce Opportunity Tax Credit supports $340,000 of program expenditures, and Foreign Labor Certification comprises $650,000.

Budget Environment
Due to the pandemic, WorkSource Oregon Centers were closed to in-person visits. The agency shifted to virtual service delivery, utilizing drive-through job fairs, virtual hiring events, and virtual workshops in multiple languages for job seekers. During this time, approximately 400 employees in this division transitioned to support Unemployment Insurance work, while others were proactively reaching out to workers likely to exhaust all benefits to offer employment services. As of August 2021, all but three locations were open for in-person assistance. Going forward, service models pioneered during the pandemic will be adapted to allow in-person alternatives to ensure availability, accessibility, and equity for all customers.

Legislatively Adopted Budget
The 2019-21 legislatively adopted budget is a $25.7 million, 21.6%, total funds increase from the 2019-21 legislatively approved budget.

OED continues to be an effective partner to other state agencies looking to place clients in jobs and training programs. Other Funds expenditure limitation of $13.5 million, $2 million in Federal Funds expenditure limitation, twenty-two permanent positions and 30 limited duration positions were approved to assist the Department of Human Services via contract with job placement for clients in the following programs: Job Opportunity and Basic Skills (JOBS); Supplemental Nutrition Assistance Program Employment & Training Program (STEP); and, Able Bodied Adults Without Dependents (ABAWD). Federal Funds expenditure limitation was increased by $2.4 million and four limited duration positions (4.00 FTE) were added to assist Oregonians in finding work that were displaced by Southern Oregon wildfires.

Federal Funds expenditure limitation increased by $8 million and 38 permanent positions (38.00 FTE) were approved to meet caseload projections and allow for enhanced service levels pursuant to requirements of the Federal Trade Adjustment Assistance program. These are workers whose jobs have been eliminated by international competition. The enhancements consist of focused efforts to identify and develop work-based learning opportunities amongst businesses, workforce boards, and other customers, and to place Trade Act-eligible workers in these positions. These federally funded enhancements to the Trade Act program are presumed to be ongoing.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Workforce Operations is a $9.5 million total funds increase from the 2021-23 legislatively adopted budget. Of this amount, $4.3 million is due to statewide adjustments to employee compensation approved during the 2022 legislative session. Federal Funds expenditure limitation was increased $5,172,629 to support a grant award for workforce training and job placement services to Southern Oregonians impacted by the 2020 wildfire season and the COVID-19 pandemic. Seven limited duration positions (5.60 FTE) were authorized, Five Business and Employment Specialist 2 (4.00 FTE); One Program Analyst 1 (0.80 FTE); and One Program Analyst 2 (0.80 FTE).

Office of Administrative Hearings

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	30,859,408	33,696,115	34,731,375	35,773,080
Total Funds	**$30,859,408**	**$33,696,115**	**$34,731,375**	**$35,773,080**
Positions	107	110	126	126
FTE	103.55	108.88	112.80	112.80

Program Description

The Office of Administrative Hearings (OAH) is an independent entity directed by a Chief Administrative Law Judge who is 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 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. For larger agencies, the amount charged is based on the actual use of OAH services; and, for smaller agencies, the OAH will utilize a billing rate structure beginning in the 2021-23 biennium.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is a 3.1% increase from the 2021-23 current service level and a 12.5% increase from the 2019-21 legislatively approved budget. The change from Current Service Level reflects the additional funding anticipated to be necessary to provide administrative hearings services for the PFMLI program. Fifteen positions (2.92 FTE) and $964,429 in Other Funds expenditure limitation were added to accommodate expected demand from PFMLI-related cases, based on projected dates of employer and employee collections set to go live in the last few months of the 2021-23 biennium.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $1,041,705, 3.0%, total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Workforce and Economic Research

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
Other Funds	7,848,328	8,097,306	7,840,083	8,029,775
Federal Funds	8,039,336	8,363,004	8,326,967	8,664,741
Total Funds	**$15,887,664**	**$16,460,310**	**$16,167,050**	**$16,694,516**
Positions	54	53	52	52
FTE	54.00	53.00	52.00	52.00

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 QualityInfo.org and 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 ($7.7 million); and contracts for customized analysis ($450,000).

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget is a 1.8% increase from the 2019-21 legislatively approved budget. One position was eliminated to refinance the reclassification of positions in this division and elsewhere in the agency.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget is a $527,466 (3.3%) total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Modernization Initiative

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	1,912,374	2,015,484
Other Funds	21,735,059	24,735,720	54,411,088	55,231,798
Total Funds	**$21,735,059**	**$24,735,720**	**$56,323,462**	**$57,247,282**
Positions	71	55	78	78
FTE	50.63	55.00	78.00	78.00

Program Description
The Employment Department began tentative steps to modernize its information systems and business processes in 2015-17. Existing systems were originally designed in the 1990s and did not incorporate web-based applications until later. The age of systems, modifications over time, and complex interdependencies between OED divisions and other agencies have contributed to a computing environment that is difficult to modify to meet changing demands, compatibility problems, manual processes, and increasing costs of maintenance and support as vendor support phases out and employees retire. Security concerns, web-based platforms, and customer service expectations are also driving the need for a modernized system. The need was keenly felt when OED systems were overwhelmed by new programs, eligibility parameters, and applicant volumes due to temporary business closures resulting from COVID-19 in the spring and summer of 2020.

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 the 2015-17 project plans and what could be reasonably and successfully accomplished during the remainder of the 2015-17 biennium and what could 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. In the 2019-21 biennium, the primary project focus was on: developing baselines for project scope, schedule, and budget; initializing change management activities; hiring program and project staff; releasing a request for proposal; selecting a vendor; and awarding the contract. The team also determined that customers and programs were similar enough that economies of scale and a better experience for the public users of the system could be gained if the PFMLI program technology solution could be designed and potentially incorporated into the modernization effort. PFMLI technology project justification and design is proceeding along a parallel track according to the prescribed Stage Gate review process, with separate planning and funding streams.

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. As of June 30, 2021, a balance of $81.7 million remained. 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 and processes. The 2021-23 budget assumes that

$54.2 million from this source will be spent over the course of the biennium, principally on procurement and contract costs associated with the selected solution vendor, FAST Enterprises.

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 not begin in earnest until UI systems have been procured and tested in anticipation of deployment.

Legislatively Adopted Budget

The legislatively adopted budget authorizes $56.3 million total funds and 78 positions (78.00 FTE) devoted to modernization in the 2021-23 biennium. The UI Modernization's program's focus will shift to development, implementation, and delivery of the UI Tax solution. This includes data scrubbing, input, testing, training, and eventual deployment of employer tax collections and reporting. By September 2022, development of the UI benefits solution is planned to begin and continue into the 2023-25 biennium. The legislatively approved budget makes permanent positions that were first authorized by the 2020 Emergency Board.

General Fund in the amount of $1.9 million is associated with the Modernization program staff's periodic interfacing with IT solution planning and processes for the PFMLI project, as no funding from the U.S. Department of Labor, SEDAF, Penalty and Interest, or Fraud Control funding can be utilized for PFMLI program expenses; the direct IT system design, development, and procurement costs for PFMLI are captured below.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $923,820, 1.6%, total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Paid Family and Medical Leave Insurance Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	$9,787,440	$2,745,191	31,481,161	32,318,341
Other Funds	--	--	7,622,610	7,855,236
Total Funds	**$9,787,440**	**$2,745,191**	**$39,103,771**	**$40,173,577**
Positions	33	8	301	301
FTE	20.75	8.00	99.48	99.48

The passage of HB 2005 (2019) resulted in the creation of a paid family and medical leave insurance (PFMLI) 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. HB 3398 (2021) changed operative dates for HB 2005, and established the following deadlines: established operative dates for administrative rules (September 1, 2022), beginning to collect contributions (January 1, 2023), employer assistance grants for small employers (September 3, 2023); and payment of benefits (September 3, 2023).

Revenue Sources and Relationships

The Legislature provided General Fund appropriations to cover start-up costs for establishing the PFMLI 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 June 30, 2023. OED is in the midst of establishing rules and operational processes for the program, as well as assessing technological needs to collect contributions and pay benefits. OED actuarial analysis has indicated that

PFMLI program collections from employers and workers are assumed to be sufficient to repay a total $56.9 million in General Fund start-up costs appropriated since the passage of HB 2005, as well as $7.6 million in Other Funds administrative program expenses.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget assumes a phased increase in personnel. Positions include 28 limited duration public service representative positions which will communicate new program components as they are developed and deployed to both internal and external stakeholders. Permanent positions total 301 (99.48 FTE), and comprise a mix of policy analysts, compliance specialists, office and administrative specialists, accounting technicians, managers, adjudicators, investigators, economists, and permanent public service representatives. Similar to the unemployment insurance division, this program will need professional personnel to help calculate, verify, and collect contributions (and evaluate alternative plans for substantial equivalency), and eventually determine eligibility and pay benefits to thousands of Oregon workers who apply. OED was directed via a budget note to report on its progress toward collecting contributions and repayment of General Fund supported startup costs, via the following budget note:

> Budget Note
>
> The Employment Department is directed to work with the Legislative Fiscal Office to report to an appropriate legislative committee on progress toward collecting Paid Family and Medical Leave Insurance Program contributions and repayment of General Fund-supported start-up costs related to the program. The report or reports shall include information related to rates, collection amounts, repayment schedules, program implementation schedules, and associated factors which may influence forecasts and outcomes.

Of the $39.1 million in total funds budgeted for PFMLI in 2021-23, $9.2 million General Fund and $2.2 million Other Funds are associated with IT costs for the program, including planning, design, and deployment aspects of an IT system. These budget assumptions assume that PFMLI will leverage functionality and capabilities that are being developed for Unemployment Insurance, since the programs share many of the same customers and basic functions. The PFMLI IT project will follow a path that is separate from (but parallel to) the UI Modernization project to achieve Enterprise Information Service and LFO stage-gate protocols and approval steps.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $1,069,806, 2.7%, total funds increase from the 2021-23 legislatively adopted budget, due to statewide adjustments to employee compensation approved during the 2022 legislative session.

Nonlimited

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	6,021,119,206	5,058,847,795	5,058,847,795	5,058,847,795
Federal Funds (NL)	10,571,008,796	131,179,119	1,081,179,119	1,081,179,119
Total Funds	**$16,592,128,002**	**$5,190,026,914**	**$6,140,026,914**	**$6,140,026,914**

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 approximately 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 UI trust fund insolvency is minimized.

The 2021-23 legislatively adopted budget estimates a total of $6.1 billion in benefits being paid to unemployed workers. This is a substantial reduction ($10.5 billion or 63%) from the 2019-2021 legislatively approved budget, reflecting forecasts of an improving economy and strong employment in the wake of the Coronavirus pandemic. OED updates its employment and economic forecasts quarterly, and uncertainty regarding the virulence of virus variants, and the extent to which public health protocols are again instated, have the potential to influence economic projections and business performance (and therefore, employment levels and demand for benefits) over the course of the 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. No PFMLI program benefit payments are assumed in the 2021-23 legislatively adopted budget in alignment with PFMLI dates established in HB 3398 (2021). In 2023-25, benefit payments for PFMLI are likely to be budgeted as Other Funds Non-Limited in the PFMLI Program, rather than in the Non-Limited SCR.

HOUSING AND COMMUNITY SERVICES DEPARTMENT

Analyst: Deister

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	331,045,629	86,349,861	501,765,128	908,982,969
Lottery Funds	21,752,234	30,269,740	25,224,730	25,224,730
Other Funds	706,359,470	312,584,055	848,189,272	1,107,463,705
Other Funds (NL)	1,056,668,660	926,692,991	926,685,282	926,685,282
Federal Funds	317,095,799	132,315,039	437,638,180	708,562,622
Federal Funds (NL)	152,131,628	176,472,688	176,472,688	176,472,688
Total Funds	**$2,585,053,420**	**$1,664,684,374**	**$2,915,975,280**	**$3,853,391,996**
Positions	253	196	350	416
FTE	220.81	195.00	327.84	363.75

<u>Overview</u>

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.

<u>Revenue Sources and Relationships</u>

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. In addition, General Fund supports debt service payments on General Obligation bonds that have been approved for the construction of affordable housing and permanent supportive housing units. The 2021-23 legislatively adopted budget also included one-time General Fund resources for strategic investments including home ownership, rental assistance, affordable rental housing preservation, land and property acquisition, shelter initiatives, capacity for partner organizations, and wildfire recovery efforts.

Lottery Funds in the amount of $25.2 million are provided for debt service payments on bonds issued for wildfire recovery, as well as bonds issued in previous biennia for preservation of affordable housing, including manufactured home parks; housing with people with mental health and addiction issues; low income housing with on-site personal support; and the Community Incentive Program, circa 2001.

HCSD has numerous sources of Other Funds including fees for service, interest income, lottery bond proceeds, revenue bonds, loan repayments, that support agency operations and fund grant and loan programs. Major revenue streams include the following:

- Construction excise tax revenue ($1.5 million)
- Proceeds from the sale of bonds ($500 million)
- Mortgage and down payment assistance repayments ($315.6 million)
- Federal HUD contract administration fees for service ($5.9 million)
- Homeownership Stabilization Initiative fees for service ($1.5 million)
- Loan, tax credit, and other fees for service ($30.6 million)
- Energy bill payment assistance funding ($84.4 million)
- A portion of the public purpose charge ($8.5 million)

- Interest income from various revenue streams ($8.8 million)
- Special assessments on manufactured dwellings ($1.1 million)

The passage of the document recording fee (HB 2436, 2009) adds an estimated $90.3 million of revenue, including $22.6 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 2021-23 legislatively approved budget includes Lottery Bond proceeds of $50.8 million to fund wildfire recovery efforts.

The 2021-23 Legislatively Assembly also approved $410 million in XI-Q bonds for the LIFT program; cumulatively, General Obligation bond sales now total $780 million for affordable housing financing, including funding for the construction of permanent supportive housing units for chronically homeless Oregonians. Permanent Supportive Housing units are distinctive in that General Fund-supported rental assistance and supportive services payments are attached to them.

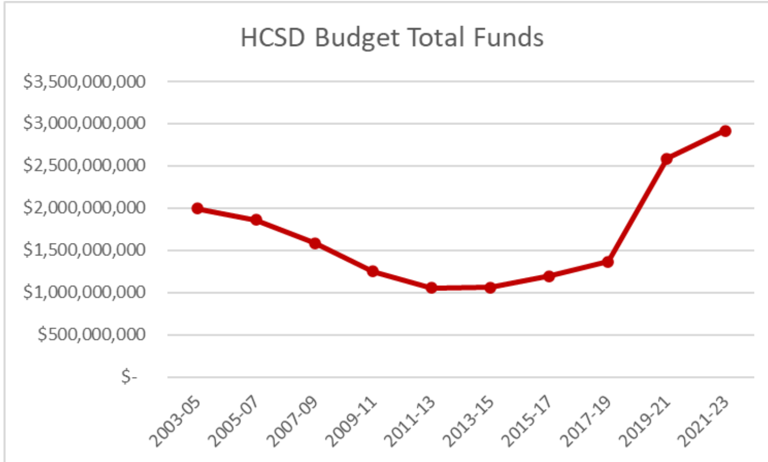
In addition to the direct sources of Other Funds revenues, $36.8 million in various General Fund appropriations are transferred to the Oregon Housing Fund and expended as Other Funds in instances where programs necessitate construction, planning or payment of expenditures over a longer (e.g., more than 24 months) time horizon. Expenditures including guarantee funding, special one-time investments for shelter operations and construction, and long term rental assistance payments for vulnerable youth fall under this scenario.

Federal Funds are received primarily as formula grants for weatherization and anti-poverty programs. The largest amounts of Federal Funds in the 2021-23 legislatively adopted budget are attributable to the following:

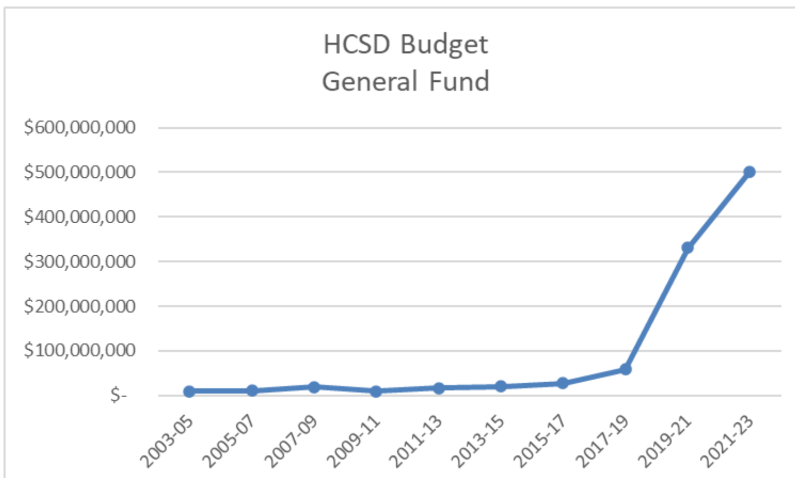
- Community Services Block Grant for anti-poverty and revitalization initiatives: $15.7 million
- Homeless Assistance Grants: $1.3 million
- HOME tenant-based rental assistance: $2.6 million
- Low Income Home Energy Assistance Program: $123.6 million
- Low Income Household Water Assistance: $13.8 million
- Emergency Rental Assistance funding from U.S. Treasury: $130.5 million
- Emergency Solutions Grant to promote housing stability: $53.6 million
- Federal weatherization funding: $19.2 million
- HOME funds for housing development from Housing and Urban Development: $23.9 million
- National Trust Fund for housing development: $13.2 million
- Section 8 rent subsidy (Federal Funds Nonlimited): $176.5 million
- Homeowner Assistance Funding: $32.9 million
- Neighborhood Stabilization Program foreclosure avoidance funding: $0.8 million

Budget Environment

The budget for the Housing and Community Services Department has increased by nearly $1 billion total funds since the 2003-2005 biennium. The change reflects increases in population growth, economic factors encompassing everything from interest rates and lending environments to economic recessions (driving the need for additional assistance to Oregonians for housing and utility assistance), as well as increased attention from policy makers on the contributions that stable housing can make to health outcomes, education attainment, and lower levels of crime and recidivism. The following graph shows the change in HCSD's budget over time:



Beginning in the 2017-19 biennium, General Fund support for the agency began to significantly increase from prior years.



This growth corresponds with sharp increases in housing prices, which have impacted affordability and housing stability for low-income Oregonians. It also corresponds with the Legislature's authorization of General Obligation bonds (under the authority of the Article XI-Q of the Oregon Constitution) for affordable housing construction. Housing affordability (both for renters and would-be owners) continues to be the driving issue for policy and funding considerations in Oregon. Part of this is due to supply -- housing construction came to a near standstill during the previous recession, and in some areas, short term rentals are constraining availability of both homeownership and rental options for low-and-middle income Oregonians.

The COVID-19 pandemic interrupted incomes for many service industry and tourism-reliant workers; recognizing a possible crisis, an eviction moratorium was put in to place to prevent evictions en masse. While rental assistance has been appropriated at the state and federal levels, it's been slow to get into the hands of landlords on behalf of eligible tenants, causing ripple effects for smaller landlords who depend on the incomes of their renters. It became apparent that some local partners did not have enough capacity to fully process all applications for rental assistance within the eviction moratorium timeframes set by Oregon Law, and HCSD has been forced to take a direct role in evaluating applications and issuing funds to landlords, ahead of the dates by which eviction proceedings can begin.

The Labor Day 2020 wildfires caused major displacement in the coast range, Jackson County, along the Santiam River, and the McKenzie River highway. An estimated 5,000 homes were lost. HCSD has been mobilized to formulate and execute intermediate and permanent housing supply strategies. Recovery and rebuilding is expected to stretch through the 2021-23 biennium, and possibly into 2023-25. The Legislature provided dedicated resources totaling $150.4 million for construction, acquisition, loans, and services specific to wildfire-affected communities.

HCSD is two years into a five year strategic housing plan that established a number of objectives, including procurement, contracting, and community engagement in ways that incorporate equity and racial justice; a rate of housing retention of 85% for at-risk populations; constructing 25,000 new units of affordable rental housing; constructing 1,000 new units of affordable rental housing; providing 6,500 home loans to qualified borrowers; and ensuring that rural Oregon is a recipient of at least 2,542 units of affordable housing. As of June 2021, HCSD was well within reach of meeting its strategic plan goals, but the agency has been helped immensely by record levels of funding. Production goals have not been adjusted to incorporate these record levels of funding since the plan was initially developed.

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 has caused delays to program and funding deployment. Labor and supply chains were affected by shutdowns in 2020 and have contributed to major increases in construction costs. In addition, siting larger multi-family housing projects creates neighborhood concerns that can slow completion of projects..

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 enacted to address both the pandemic and wildfire emergencies represent forays into non-traditional areas of policy and program administration. For example:

- In 2020, HCSD was tasked with administering a landlord compensation fund, to which landlords could apply for missed rent payments due to COVID-19 and related eviction moratoriums. The agency procured an IT solution and administers that program directly.
- HCSD serves as the lead agency in determining how to provide interim housing supply for those displaced by wildfire, including assessing and coordinating local efforts; directing resources and strategies toward impacted communities to rapidly rehouse; helping families navigate Federal Emergency Management and insurance processes; and securing interim shelter options while permanent housing is developed.
- Federal funding for COVID-related relief programs has meant a deluge of new funding that comes with specific program guidance for: rental assistance; a drinking water bill payment assistance program; and a homeownership assistance fund for those threatened with mortgage foreclosure.

Legislatively Adopted Budget

For the 2021-23 biennium, the Legislature again increased its investment in affordable housing support to historic levels in an effort to address the need for affordable housing. The 2021-23 legislatively adopted budget for HCSD is $2,915,975283, a $330.9 million, or 12.8%, increase from the 2019-21 legislatively approved budget.

New investments combined with assumed Federal Funding and tax credit allocation in the 2021-23 biennium are estimated to result in the following accomplishments:

- 10,436 affordable rental housing units developed or preserved
- 4,608 affordable units for home-ownership opportunities
- 309,409 households receiving energy assistance or weatherization services

The numbers of Oregonians that will be assisted through an estimated $274.9 million in state and federal funding for homelessness assistance and shelter service is yet to be determined. 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.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $937.4 million, or 32.1%, total funds increase from the 2021-23 legislatively adopted budget. A December 2021 special session (2021 second special session) increased General Fund appropriations to the agency by $100 million, increased Other Funds expenditure limitation by $115 million, and added 14 positions (9.00 FTE). The investments during the 2021 second special legislative session (SB 5561) were to provide emergency rental assistance payments through the Oregon Emergency Rental Assistance Program; to fund administrative expenses related to processing applications and expediting payments; to support local rental assistance and eviction prevention and diversion; and to compensate landlords who delayed termination notices or eviction proceedings, pending determinations on applications for rental assistance. The Other Funds expenditure limitation was supported by American Rescue and Recovery Plan Act Coronavirus State Fiscal Recovery Funds transferred from the Department of Administrative Services.

More investments were added during the February 2022 regular legislative session , focused primarily on preservation, development and rehabilitation of affordable housing, homelessness prevention and response efforts (including federal emergency rental assistance and homeowner assistance), and disaster relief and resiliency efforts. In total, February 2022 investments resulted in a $722 million total funds increase and 52 additional positions (26.91 FTE). Of this amount, $306.9 million was General Fund and $270.9 million was Federal Funds. Approved employee compensation adjustments and limitation to accommodate changes in pension obligation bonds comprised 0.4% of the total funds increase.

The high level of funding and high expectations for rapid deployment, particularly for Oregonians vulnerable to eviction and homelessness, have led to challenges for the agency. The agency has struggled to fill positions and in some instances, has had to delay new program design in favor of more emergent priorities. HCSD had come under extensive scrutiny by its partners and legislative stakeholders for the rollout emergency rental assistance payments on behalf of tenants, and for the Landlord Compensation Fund. Federal guidelines, the amount of funding available, the expectation for timeliness and difficulties in utilizing a new software system all contributed to reports of delays in processing applications and erroneous payments in the summer and winter of 2021. In response, HCSD shifted the majority of program delivery from local service delivery partners to central administration, hiring a contractor to centrally process applications in an effort deploy funding more quickly and accurately. The difficulties with the Emergency Rental Assistance program prompted a Secretary of State audit. The extent to which HCSD contemplates a more centralized service delivery model, where the agency moves to directly administering the bulk of assistance centrally rather than relying on local contracted partners, may become more apparent with the release of the 2023-25 Agency Request Budget.

Housing Stabilization

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	126,790,048	43,868,621	126,727,791	308,735,669
Other Funds	177,088,536	84,020,107	143,157,309	247,468,259
Federal Funds	291,677,270	104,999,315	359,310,701	580,883,462
Federal Funds (NL)	152,131,628	--	--	--
Total Funds	**$747,687,482**	**$232,888,043**	**$629,195,801**	**$1,137,087,390**
Positions	47	29	52	61
FTE	45.67	29.00	50.04	55.72

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.

- 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, CSBG 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 Home Energy Assistance Program for weatherization services.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget included new one-time General Fund investments for housing stabilization efforts as follows:

- One-time resources for matching funds for individual development accounts, totaling $7 million. This program is primarily funded with tax credits, and administered by Neighborhood Partnerships, a nonprofit organization.
- $3 million in additional funding for capacity increases and administrative support for subgrantees. The funding is intended to support initiatives or staffing increases to provide operation capacity to organizations administering the Oregon Emergency Rental Assistance program, outreach resources to organizations best situated to reach communities encompassing members who are black, indigenous or persons of color (BIPOC) and initiatives that provide education to tenants at risk of eviction.
- $25 million in one-time funding for grants for shelter assistance and $2 million in one-time funding is included for grants and technical assistance to eligible entities to develop and operate emergency shelters across the state. HCSD will distribute these funds to homeless service providers (inclusive of providers that are not Community Action Agencies) to fund the shelter construction and operation, as well as pay for needed technical assistance to those grantees. Two positions -- a Program Analyst 3 and an Operations and Policy Analyst were approved to administer the distribution of this funding.
- Corresponding Other Funds expenditure limitation of $26.5 million reflects the likelihood that disbursement of funds may carry into the 2023-25 biennium, due to the long-term nature of planning and construction timelines.
- $40 million was included to support emergency housing response efforts related to wildfires and disasters. The funds are for flexible grants for immediate rebuilding needs for survivors.

Ongoing General Fund support for various housing stabilization programs are:

- Emergency Housing Assistance (EHA) - $29,249,333
- State Homeless Assistance Program (SHAP) - $12,564,147
- Elderly Rental Assistance - $1,564,147

- Housing Choice Landlord Guarantee - $324,290
- Homeless Management Information System - $350,380
- Disaster Response service position - $383,495

Other Funds expenditure limitation actually decreased by $34.4 million from the 2019-21 legislatively approved budget, due to one-time expenditure limitation for COVID-Relief programs that was phased out for 2021-23. Other Funds expenditures are supported by Public Purpose Charge and meter charges for energy assistance programs (expenditures for which total $92.9 million); passage of HB 3141 added $9.8 million in Other Funds expenditure limitation for energy assistance payments. A further significant source of Other Funds expenditures is EHA program expenditures that are supported by document recording fee revenues ($10.4 million).

Federal Funding for housing stabilization programs increased by $67.6 million, or 23.2%. The increase is attributable to increases in energy and rental assistance programs funded by U.S. Housing and Urban Development and U.S. Treasury. Five permanent positions and six limited duration positions (totaling 10.04 FTE) were included in the legislatively adopted budget to administer the additional funding.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Housing Stabilization is a $508,333,228, 80.8%, Total Funds increase from the 2021-23 legislatively adopted budget. Major investments are discussed below.

Second special session (December 13, 2021) - During the 2021 second special session , the Legislature approved $100 million Other Funds expenditure limitation for emergency rental assistance payments through the Oregon Emergency Rental Assistance Program. An additional $5 million Other Funds was approved for program delivery and administrative expenses, for both contracted funds and support for 9 permanent positions for policy development, and training. The funding source to support this work was one-time American Rescue and Recovery Plan Act (ARPA) Coronavirus State Fiscal Recovery Funds transferred from the Department of Administrative Services. It's worth noting that HCSD will have to find a permanent, on-going revenue stream to support continued eviction prevention and diversion efforts, or reduce staffing associated with this initiative in future biennia.

One-time Other Funds expenditure limitation in the amount of $10 million was approved for a grant to Home Forward to supplement the landlord Guarantee Program created in SB 278 to compensate landlords who accumulated non-payment balances while they delayed termination notices or eviction proceedings. The source of the Other Funds expenditure limitation was ARPA Coronavirus State Fiscal Recovery Funds transferred from the Department of Administrative Services It should be noted that during the February 2022 legislative session, this limitation was reduced and replaced with General Fund, due to Home Forward's reported difficulties in complying with required federal reporting standards.

A non-recurring $100 million in General Fund support was also added to the budget, intended for eviction prevention and diversion efforts through local service providers, taking such forms as rental assistance, help with late fees, or other financial assistance that may be needed to maintain tenant stability. Of the total, $2,000,000 is assumed for HCSD to contract for the following specific services:

- Portland State University (Homeless Research Action Collaborative and other university researchers) to analyze further data on eviction diversion programs. This work will be used to inform policy decisions and identify best practices as HCSD seeks to develop and deploy state guidance around this issue; and
- ICF, to provide local technical assistance and planning grants to support prevention strategies. A portion of funds will be held back for eviction prevention strategies in fiscal year 2022.

February 2022 legislative session - General Fund investments in the February 2022 legislative session for housing stability programs included $500,000 in non-recurring funding which will be used to support the creation of a permanent, full-time policy position (0.58 FTE) within the Department, and the creation of an Interagency Council on Homelessness. Approximately 50% of the investment of this investment will also be used to support a collaborative service to help communities establish and implement local action plans to reduce and eliminate homelessness. Another $80 million was approved for homelessness prevention and response, which includes financial assistance, legal services, navigation, mediation, street outreach, emergency shelter, shelter support, medical respite, and rapid rehousing, deployed by local partners including the Oregon Worker Relief Coalition and Seeding Justice. The Legislature approved a grant in the amount of $966,262 General Fund to mid-Willamette Valley Community Action Agency for shelter services, with the understanding that an equivalent amount of funds granted during the previous biennium be returned. The arrangement will allow for reimbursement from the Federal Emergency Management Agency for shelter costs in the previous biennium.

Federal Funds expenditure limitation was increased by $221,389,595 related to federal funding received for the second round of Emergency Rental Assistance provided through the American Rescue Plan Act. All funding for emergency rental assistance has been paid, obligated, or requested, and the Department will have expended these funds by summer 2022.

Project Based Rental Assistance

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	--	--	13,795,536	13,803,503
Other Funds	--	13,388,311	6,771,781	6,882,984
Federal Funds	--	1,020,396	1,020,316	1,021,932
Federal Funds (NL)	--	176,472,688	176,472,688	176,472,688
Total Funds	--	**$190,881,395**	**$198,060,321**	**$198,181,107**
Positions	--	15	17	17
FTE	--	14.50	16.50	16.50

Project-Based Rent Assistance is a newly organized division within HCSD. Historically, the programs have been budgeted in either the Housing Stabilization division or the Multifamily Rental Housing division of the agency but have never fitted particularly well into either. The programs administered within the division provide rental assistance that is associated with specific housing units rather than awarded to a tenant regardless of where the person lives. The following efforts are included in the division’s expenditures:

- HUD contract administration - There are approximately 254 contracts (projects) in Oregon for which HCSD serves as a contract administrator. Activities include subsidy payments to owners (pass through payments), tenant complaint resolution, contract renewals, rent adjustments, onsite management reviews, and technical support to owners, managers, site staff and residents.
- HUD 811 project rental assistance - Resources for this program are awarded to HCSD to set aside units in affordable housing projects whose capital costs are funded through federal Low-Income Housing Tax Credits, Federal HOME funds, or other state, federal and local funding sources. HCSD partners with the Oregon Health Authority and the Department of Human Services to identify and refer extremely low-income people with disabilities to HUD 811 units and ensure their access to long-term services and supports.
- Permanent Supportive Housing project based rental assistance - Rental assistance is associated with affordable housing units constructed with some public support and serving persons requiring support to maintain housing, such as those experiencing chronic homelessness.

<u>Legislatively Adopted Budget</u>

HCSD projects 10,200 households will be served by this program in the 2021-23 biennium. Of the $198.1 million 2021-23 legislatively adopted budget, General Fund is associated with rental assistance on some 700 units of permanent supportive housing which are assumed to be occupied by biennium’s end; 361 of these units are attributable to XI-Q bonds approved for permanent supportive housing in the 2019-21 biennium; in the 2023-25 biennium, total rental assistance and supportive services is expected to be $28.7 million for all permanent supportive housing units approved to date.

Other Funds expenditures are for HUD 811 contracts, and Federal Funds are for Section 811 project rental assistance and Section 8 rent subsidies.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget included employee compensation adjustments that increased the division's budgeted expenditures by $120,786 from the 2021-23 legislatively adopted budget.

Multifamily Rental Housing Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	165,227,757	821,797	170,281,907	360,283,839
Other Funds	232,682,629	172,177,756	202,702,079	343,542,262
Other Funds (NL)	1,350,000	900,000	900,000	900,000
Federal Funds	21,444,484	22,287,503	37,231,486	37,274,870
Total Funds	**$420,704,870**	**$196,187,056**	**$411,115,472**	**$742,000,971**
Positions	70	65	90	92
FTE	68.41	65.00	88.17	89.33

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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget is a 2.2% total funds decrease from the 2019-21 legislatively approved budget, although the amount of General Fund support increased by $5.1 million, or 3.1%.

The legislatively adopted budget included the following one-time General Fund investments:

- $100 million for affordable housing preservation. In previous biennia, this investment had typically been supported by lottery bond proceeds. By utilizing General Fund instead, the 2021 Legislature effectively doubled the investment in preservation compared to the 2019-21 biennium, while eliminating long-term obligations for debt service. The investment is anticipated to preserve an estimated 1,391 units of affordable housing.
- $5 million was included to serve as additional gap financing that is expected to be needed due to construction cost increases associated with labor and supply chain shortages instigated by the COVID-19 pandemic. Corresponding Other Funds expenditure limitation is included in the agency's budget, to enable expenditures in the 2023-25 biennium if necessary, based on the timing of funding awards, along with two limited duration positions.
- $30 million was appropriated specifically for capitalization of a revolving loan program that will fund loans to purchasers of naturally occurring affordable housing stock or land upon which affordable housing will be developed. The Department will use the loan funds to support the long-term affordable rental housing needs of Oregonians who have been historically rent-burdened or underrepresented in home ownership. A portion of the funds are intended to be awarded to applicants who have demonstrated experience or expertise in serving these communities.

- $30 million was appropriated to augment $150 million approved in the previous biennium to compensate landlords for missed rental payments experienced during Oregon's eviction moratorium. Program provisions are included in HB 4401 (2020 third special session), and SB 278 (2021).
- A further $5 million is designated for a grant from HCSD to the not-for-profit Home Forward, to make distributions to landlords who delayed termination notices or eviction proceeds pursuant to the provisions of SB 278. Landlords can apply for this compensation if they can demonstrate that they waited at least 60 days to receive rent payments from a tenant who was denied rental assistance.

A Special Purpose Appropriation to the Emergency Board of $10 million was approved for allocation to HCSD for the purpose of developing affordable rental housing projects that are co-located with childcare or early learning centers. The budget note associated with this investment reads as follows:

> Budget Note
>
> The Housing and Community Services Department is directed to develop a proposal, in cooperation with the Department of Education, Early Learning Division, for a grant program that supports gap financing for affordable rental housing projects that are co-located with childcare or early learning centers. The Housing and Community Services Department will work with the Department of Education to identify opportunities, considerations, partnerships, financing options, and funding sources that should be incorporated into such a development, and shall report to the Interim Joint Committee on Ways and Means or appropriate legislative committee by February, 2022 on the potential for offering a competitive funding opportunity for rental housing developments that include child care or early learning centers. The report shall include information on the following: assessment of need for developments of this sort; sources and anticipated amounts of funding that may be leveraged to finance these developments; amenities, security, or safety considerations that should be incorporated into such a development; location considerations; criteria for project selection; estimated award size; characteristics of populations likely to be served by the development; and potential development timelines.

One-time Other Funds expenditure limitation associated with the issuance of lottery bonds for land acquisition for affordable housing development in wildfire impacted communities was also approved. Ongoing multi-family housing finance programs will comprise the following amounts of Other Fund expenditure limitation in 2021-23:
- $90.8 million – General Housing Assistance Program financing (comprised primarily of document recording fee revenue).
- $19.9 million – Housing Development Grant Program (comprised of Public Purpose Charge revenue).
- $13.1 million – tax credit and miscellaneous program awards (funded by program fees, loan repayments, and interest earnings).
- $8.5 million - affordable housing portfolio administration (funded with fee revenue).

Six Other Funds supported permanent positions were added to the program to meet workload demands.

Federal Funds expenditure limitation in the Multi-Family Rental Housing Program division is comprised of $24 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. Increases in Federal Funds drove the addition of two new permanent positions (1.47 FTE) in the program. In addition, $13.2 million of Federal Funds expenditure limitation is attributable to the National Housing Trust Fund program as a source of funding for affordable housing preservation and rehabilitation.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $330.6 million (or 80.4%) total funds increase over the 2021-23 legislatively adopted budget. General Fund was 111.6% higher than the legislatively adopted budget. Significant investments during the February 2022 legislative session included affordable housing preservation ($65 million General Fund), acquisition of land on which affordable housing will be built ($10 million General Fund), support for smaller and rural affordable housing projects ($35 million) and funds to address inflation and supply chain shortfalls ($50 million General Fund). Other Funds expenditure limitation was increased by $158 million to allow for longer construction horizons in affordable housing programs, or to allow General Fund to seed revolving loan programs that will support preservation or construction of affordable rental housing. Two additional limited duration positions were approved to support the additional grants or competitive funding opportunities that will be created by these investments.

Single Family Housing

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Adopted Budget
General Fund	14,500,000	--	58,983,414	94,097,988
Other Funds	16,067,055	16,725,921	18,555,172	30,749,787
Federal Funds	750,137	787,655	33,733,608	75,403,948
Total Funds	**$31,317,192**	**$17,513,576**	**$111,272,194**	**$200,251,723**
Positions	12	14	56	56
FTE	11.50	14.00	50.06	50.06

<u>Program Description</u>
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.

Also included here are the Marinas and Manufactured Communities Resource programs, 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.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget for single family housing programs is a 255% increase from the 2019-21 legislatively approved budget.

General Fund supports investments in the programs described below are not assumed to be ongoing; however, the Single Family division’s staffing was augmented with a total of 5 General Fund supported permanent positions and three limited duration positions (for a total of 7.15 FTE) to assist in the deployment of these and other programs. HCSD’s budget includes provisions for grants for the following purposes:

- Passage of HB 3335 included $1 million for a grant to a not-for-profit pilot program to develop accessory dwelling units for income eligible homeowners to lease to income eligible tenants.
- $2 million in grant funding for development of shared equity homeownership models, including tiny home development.
- $3 million for manufactured dwelling park infrastructure development or improvements located in the City of Springfield (note: funding for this purpose had previously been included in the 2019-21 legislatively adopted budget, but was reallocated with legislative approval during 2020 budget reduction actions).
- $20 million for down payment assistance. Of this amount, $10 million is provided for the purpose of capitalizing a loan fund as a source of down payment assistance to homebuyers using HCSD lending products; the remaining $10 million is designated for subgrants to culturally responsive organizations that will increase homeownership opportunities for their communities.
- $7 million for safe and healthy manufactured housing, including $4.5 million for acquisition and preservation of manufactured housing parks, and $2.5 million for decommissioning and disposal grants.
- $20 million for development of affordable alternative homeownership models, such as co-ops, as well as single family housing. One permanent position and two limited duration positions (1.75 FTE) are associated with this initiative.

- $3 million and one limited duration position (0.88 FTE) to administer funding that will provide foreclosure avoidance counseling services to homeowners. The bulk of funds will be subcontracted to nonprofit organizations that offer counseling services.

Ongoing General Fund- supported expenditures in the Homeownership division (besides the staff noted above) consist of $2 million and 2 positions for addressing racial disparities in home ownership. Unassociated with a specific initiative, $791,666 was approved to support 4 permanent positions (3.52 FTE) in support of HCSD's homeownership activities.

Of the $18.6 million in Other Funds expenditures, $13.4 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 $2.7 million is attributable to expenditures for manufactured housing programs and marinas, while the remaining $2.4 supports various lending activities. Eight permanent positions financed from fees and charges were added to the division to meet workload demands in this division.

98% of Federal Funds and 23 position (19.88 FTE) were approved to administer home ownership assistance funding from U.S. Treasury. This is a new mortgage assistance program funded through the American Rescue Plan Act, similar in size and scale to the Oregon Homeownership Stabilization Initiative. Funds for this program must be committed by September 30, 2026; however, reporting and program closeout is likely to last longer. As such, nine positions associated with this work are included as permanent.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget increased by $89 million total funds (80%) from the 2021-23 legislatively adopted budget. Significant investments of General Fund during the 2022 legislative session included $20 million for acquiring manufactured housing parks; $20 million to pair with Low Income Fast Track Housing program bond proceeds to finance affordable homes for purchase, and $15 million for down payment assistance and services deployed through homeownership centers. Federal Funds expenditure limitation increased by $39,769,368 to accommodate federal American Rescue Plan Act grant funds received to assist homeowners in financial distress due to COVID or resulting economic issues, and by $1.7 million for housing counseling services and financial education services (including outreach and training) provided by homeownership centers, with whom HCSD contracts for services. Additional Other Funds expenditure limitation was included to accommodate down payment assistance loans ($5,000,000), a revolving loan program to facilitate resident cooperative acquisition of manufactured parks seeded by General Fund approved during the 2021 regular legislative session ($4.2 million), and a loan program for the decommissioning and disposal of manufactured housing of substandard manufactured housing (also seeded by $2.8 million General Fund approved during the 2021 regular legislative session).

Homeownership Stabilization

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	4,059,192	--	1,454,862	1,535,561
Total Funds	**$4,059,192**	**--**	**$1,454,862**	**$1,535,561**
Positions	20	--	14	14
FTE	17.25	--	5.93	5.93

Program Description

The Homeownership Stabilization Initiative (OHSI) 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. In total, about $58 million has been designated for administration of the program.

Oregon was one of 18 states to receive "Hardest Hit" funding due to high unemployment and home foreclosure rates experienced during the last major 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 June 2021, the program had provided $257.1 million in direct assistance to 17,029 unique Oregon applicants.

Legislatively Adopted Budget

Oregon had expended nearly all of the $220 million initially allocated for this program, 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. Though the program ends on December 31, 2021, reporting and final transaction information is not expected to be complete until March 31, 2022. The positions in the program are limited duration, anticipating this closure. "Recycled" funds (those that were granted as forgivable loans and repaid) have been approved by U.S. Treasury for use by the Department to pay for administrative costs related to foreclosure prevention. It's expected that the new $92 million in ARPA Home Ownership Assistance Funding budgeted in the Single-Family Housing division will fulfill largely the same role, if with slightly different program guidance regarding eligibility and use of funds, as HOSI.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is an $80,669 increase over the 2021-23 legislatively adopted budget, due to adoption of statewide adjustments to employee compensation.

Central Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,468,385	595,306	62,222,082	62,702,572
Other Funds	18,374,937	21,040,725	55,754,662	57,427,291
Federal Funds	3,223,908	3,220,170	6,342,069	13,978,410
Total Funds	**$23,067,230**	**$24,856,201**	**$124,905,417**	**$134,113,273**
Positions	68	66	113	168
FTE	67.38	65.50	109.14	138.21

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, and compliance and monitoring.
- Deputy Director's Division– Facilities management, information services, research analysis, and human resources services are also included in this division. The Emergency Response and Resiliency Section was

added in 2021 to address housing impacts related to the 2020 wildfires and to be responsive to future emergencies as they arise.

Other Funds and Federal Funds are derived from indirect charges with each program contributing a share of administrative costs pursuant to a federally approved cost allocation plan.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for Central Services once again 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. A combination of continuing pandemic-related assistance funding for rental, utility and homeownership assistance, and legislative prioritization of shelter, homelessness prevention and housing affordability initiatives have all combined to create a department with a 2021-23 legislatively adopted budget that exceeds current service level by 61.5%.

The Central Services division has had to grow to accommodate the increases in position authority (requiring additional human resources support, training, help desk functions, facilities management and space planning), while additional programmatic resources have required more financial oversight (contract management, procurement, research and analysis, reporting, auditing) and more stakeholder engagement (communications, administrative rules, Housing Stability Council input, etc.). In all, a total of 47 positions (43.14 FTE) were added to the Central Services Division. Seven of these positions are supported by General Fund, and five of those are permanent positions. A limited duration General Fund-supported position and services and supplies costs were approved to enable HCSD to carry out the provisions of HB 3040 (2021), which allows for a study of the impact of system development charges on housing affordability.

Twenty-three new positions are funded with Other Funds, 22 being permanent. Seventeen of the new positions (16 of which are permanent) are related to the addition of significant federal funds resources from ARPA and CARES Act funding. To the extent that Other and Federal Funds are insufficient in future years to support these staffing levels, the agency will be required to “right size” based on available funding.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget is a $9.2 million increase (7.4%) over the 2021-23 legislatively adopted budget. During the 2022 legislative session, the Legislature approved the addition of 10 permanent positions (5.71 FTE) and 39 limited duration positions (19.46 FTE) related to the establishment of an ongoing disaster recovery and resiliency program. The idea for an ongoing disaster response program took on new urgency with the receipt of a $422 million federal Community Development Block Grant Disaster Recovery grant to provide services and housing replacement in areas most impacted by the 2020 wildfires. The limited duration positions are associated specifically with this work; the permanent positions will need to be funded by an ongoing, more stable revenue source once the grant funds are fully expended. This program will likely have a separate budget structure in future biennia. Federal Funds expenditure limitation was increased by $7,368,864 to allow for planning and administration of new programs that will be established to replace housing and provide services, pursuant to an approved recovery plan, which HCSD will submit in the summer of 2022. One additional position and associated expenditure limitation was added to support the Interagency Council on Homelessness.

Five positions and associated expenditure limitation were added during the 2021 second special legislative session to support administrative expenses associated with expanding emergency rental assistance payments, including procurement and contract specialists, outreach and engagement, research and information systems development and maintenance.

Bond Activities and Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	23,059,439	41,064,137	69,354,398	69,354,398
Lottery Funds	21,752,234	30,269,740	25,224,730	25,224,730
Other Funds	8,087,121	5,231,235	925,785,282	925,785,282
Other Funds (NL)	1,055,318,660	955,792,991	9,793,407	9,875,561
Total Funds	**$1,108,217,454**	**$1,002,358,103**	**$1,030,157,817**	**$1,030,221,971**
Positions	7	7	8	8
FTE	6.50	7.00	8.00	8.00

Program Description

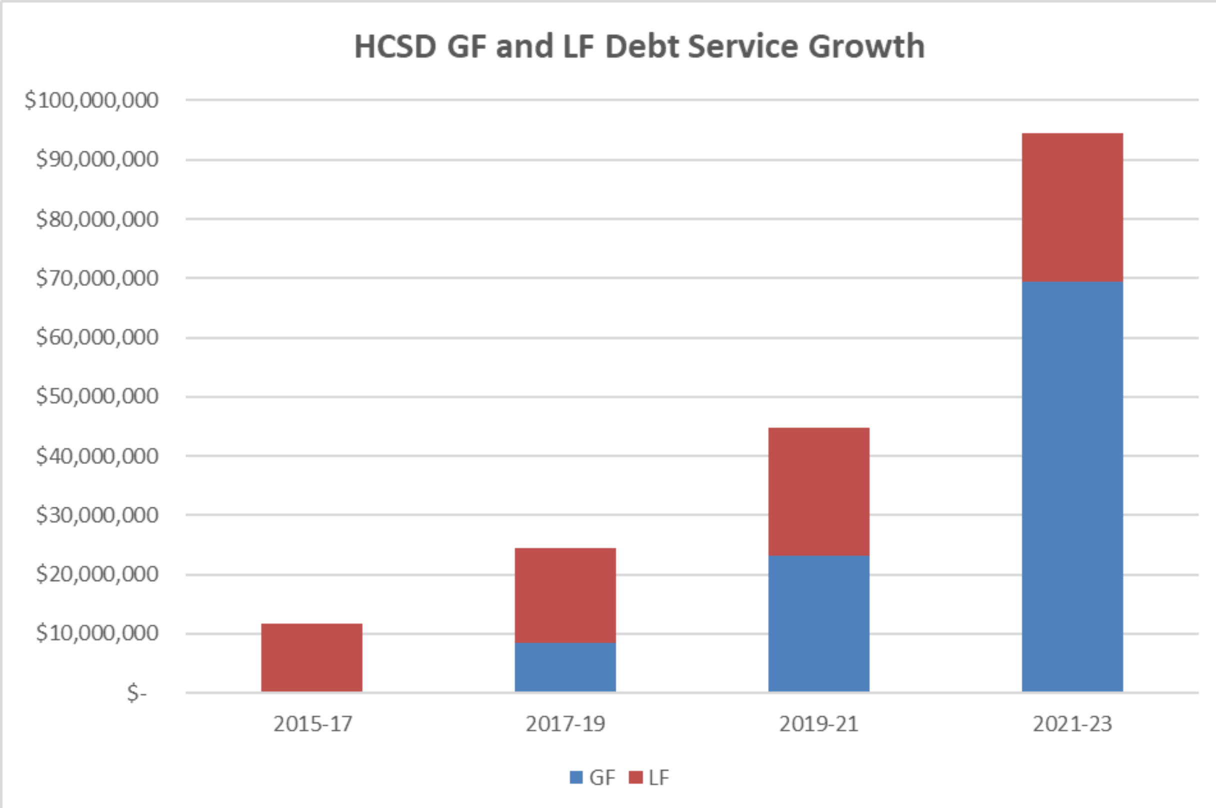
Costs captured in the Bond Activities and Debt Service program are those related to staffing, bond counsel, debt service, refinancing, and cost of issuance associated with issuing and monitoring bond sales payments over time.

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

General Fund Debt service is accumulating, growing considerably since first appropriated in 2017-19.



The 2021-23 Legislature approved the issuance of $410 million for XI-Q bonds for the LIFT program and Permanent Supportive Housing. Most of these bonds will not be issued until Spring of 2022 and 2023, thereby saving some debt service costs in the current biennium. Lottery Bond approval for HCSD was confined to the purpose of wildfire recovery, and totaled $50 million in proceeds (budgeted as Other Funds), accompanied by $2.2 million Lottery Funds for debt service in the 2021-23 biennium. Debt service associated with Article XI-Q bonds authorized in 2021-23 is $21.4 million, and is budgeted as General Fund Debt Service.

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.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $64,154 increase from the 2021-23 legislatively adopted budget, due to technical changes in the timing of bond sales or assumed interest rates.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	250,000,000	--	410,000,000	410,000,000
Total Funds	**$250,000,000**	**--**	**410,000,000**	**$410,000,000**

Legislatively Adopted Budget

This program provides expenditure limitation for a period of six years (expires June 30, 2027) for the construction of affordable housing or acquisition of land 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 property 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; and in 2021-23, HCSD is estimating 750 units for every $100 million in funding. Put another way, the cost per unit has increased an estimated 222% since the inception of the LIFT program in 2015.

Of the total approved, approximately $60 million is designated for applications received in the 2019-21 biennium for LIFT support, and that would have been successful candidates for project funding but for the fact that demand for the program exceeded available resources. An estimated $50 million will be directed toward construction of approximately 350 units of housing with supportive services for very low-income Oregonians who require tenancy supports and rental assistance to remain stably housed; this builds upon the amount of funding and units approved in 2019-21, for a total of 700 units. General Fund budgeted in the Project Based Rental Assistance division for services and rental assistance on these units is based on the timing of bond issuance and how many units are ready for occupancy by biennium’s end.

DEPARTMENT OF VETERANS' AFFAIRS

Analyst: Campbell

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	7,948,133	9,025,313	8,927,158	9,140,366
Lottery Funds	19,272,830	18,423,695	21,091,851	21,326,867
Other Funds	109,395,643	112,009,726	121,247,139	121,680,744
Other Funds (NL)	408,779,089	204,521,026	204,521,026	204,521,026
Federal Funds	4,227,341	1,617,844	1,617,844	1,628,594
Total Funds	**$549,623,036**	**$345,597,604**	**$357,405,018**	**358,297,597**
Positions	105	103	104	104
FTE	104.47	102.59	103.79	103.79

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, including funds from the U.S. Department of Veterans' Affairs, Medicare, Medicaid, insurance companies, and private payers.

Revenue Sources and Relationships

Other Funds revenues for the Veterans' Loan Program are derived from the proceeds of general obligation bond sales and bond refundings ($140 million), veteran loan and contract-related repayments ($80 million), and interest earnings ($50 million). The balance of revenue comes from service charges, rent, licenses, fees, and miscellaneous revenues totaling approximately $6.2 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. 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 $25.5 million for the 2021-23 biennium, based on the Office of Economic Analysis' May 2021 revenue forecast, with an additional $2 million beginning balance in the Veterans' Services Fund, for total 2021-23 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 million allocated for veterans' programs and services in other agencies, with an estimated ending balance of $3.2 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).

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 $99 million in the 2021-23 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 2021-23 beginning balance of $11.5 million in the Veterans' Home Program.

<u>Budget Environment</u>

An estimated 300,573 veterans live in Oregon who have served over the following five eras: World War II (2.3%), Korea (6.6%), Vietnam (36.1%), Gulf/Post 9-11 (30.9%), and during times of peace (24.1%). 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, 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.

Although ODVA experienced growth in loan volume over the past several fiscal years, originations decreased from $77 million in 2019 to $47.4 million in 2020. The decline is primarily attributable to historically low mortgage interest rates and a shortage of available housing inventory. ODVA continues to focus on increasing lending partners, including mortgage bankers and brokers that provide the Department's loan supply. As of June 30, 2020, the loan portfolio was approximately 1,777 loans totaling more than $347 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. 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. Since the beginning of the COVID-19 pandemic, occupancy rates at the Veteran Homes decreased by 18%, which resulted in lower revenues for the Veteran Homes though costs remained constant. The Program did receive funding from the CARES Act Provider Relief Fund, which helped to offset some of the lost revenues and increased costs related to the COVID-19 pandemic.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Department of Veterans' Affairs is $357.4 million total funds and 104 positions (103.79 FTE), which is an 35% decrease from the 2019-21 legislatively approved budget. The decrease is primarily attributable to a $204.3 million decrease in Other Funds Nonlimited to align with projected home loans and debt service payments in the upcoming biennium.

Other Funds Nonlimited of $204.5 million for the Veterans' Loan program bond-related activities, debt service, and loans to borrowers make up 57.2% of the total budget. Excluding Nonlimited funds, the 2021-23 legislatively adopted budget is an 8.6% increase from the 2019-21 legislatively approved budget. Lottery Funds expenditure limitation of $21.1 million, available through the passage of Measure 96, is included in the budget and represents a 9.4% increase over the prior biennium. The budget also includes $8.9 million of General Fund, which consists of $8.6 million for veterans' services and $371,660 for debt service on outstanding bonds.

Legislatively Approved Budget

The 2021-23 legislatively approved budget for the Department of Veterans' Affairs is $358.3 million total funds and 104 positions (103.79 FTE), which is a 0.2% increase from the 2021-23 legislatively adopted budget. The increase is due to employee salary and compensation plan adjustments approved during the 2022 session.

Loan Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	17,768,499	18,103,420	18,231,505	18,615,806
Other Funds (NL)	408,779,089	204,521,026	204,521,026	204,521,026
Total Funds	**$426,547,588**	**$222,624,446**	**$222,752,531**	**$223,136,832**
Positions	47	47	47	47
FTE	46.79	46.79	46.79	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 335,000 home and farm loans with a principal amount of over $7.9 billion. The program budget consists of:

- Home Loan Services – functions dealing with the loan program, including originating and servicing loans.
- Director's Office – information services, information management, and human resources.
- Financial Services – overall financial oversight of the Department, including budgeting, accounting, cashiering, and financial management.
- Facility and Construction Management – facility services.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $222.7 million Other Funds is an 47.8% decrease from the 2019-21 legislatively approved budget. The decrease is primarily attributable to a $204.3 million decrease in Other Funds Nonlimited to align with projected home loans and debt service payments in the upcoming biennium mostly caused by historically low mortgage interest rates and a shortage of available housing inventory. Limited Other Funds of $18.2 million for loan services and ODVA operations is a 2.6% increase from the 2019-21 legislatively approved budget. Other Funds were increase by $400,000 on a one-time basis to continue modernizing the program's information systems. This funds replacement of the home loan servicing application and is expected to integrate with the new origination system and enable customer-facing online account management of their state veteran home loan.

Legislatively Approved Budget
The 2021-23 legislatively approved budget for the Loan Program is $223.1 million total funds and 47 positions (46.79 FTE), which is a 0.2% increase from the 2021-23 legislatively adopted budget. The increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Veterans' Services Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	7,096,990	8,053,158	7,796,435	7,981,853
Lottery Funds	16,209,230	15,434,817	17,213,207	17,343,733
Other Funds	4,170,709	137,682	6,250,537	6,258,522
Federal Funds	1,560,975	1,617,844	1,617,844	1,628,594
Total Funds	**$29,037,904**	**$25,243,501**	**$32,878,023**	**$ 33,212,702**
Positions	41	40	39	39
FTE	40.68	39.80	39.00	39.00

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. Over 23,000 new claims were filed in fiscal years 2019 and 2020. 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.
- 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 Resource Center Grant Program, Rural Veteran Healthcare Transportation Grant Program, Veteran Education Bridge Grant Program, and federal Highly Rural Transportation Grant (HRTG).

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $32.9 million total funds represents a 13.2% increase from the 2019-21 legislatively approved budget. General Fund support for veterans' services is a 9.9% increase from the prior biennium while Lottery Funds expenditure limitation of $17.2 million for the Veterans' Services Program represents a 6.2% increase. Specific investments with lottery dollars dedicated by Measure 96 for services to veterans include:

- $650,000 was transferred on a one-time basis to the Oregon Department of Transportation (ODOT), who will carry the expenditure limitation to administer the Rural Veteran Healthcare Transportation grant program. ODVA partnered with ODOT during the 2019-21 biennium to administer this program.
- $642,072 expenditure limitation was provided to support funds carried forward from the 2019-21 biennium. These funds were provided to ODVA for a one-time grant to the YMCA of Marion and Polk Counties, for construction of veterans' affordable housing adjacent to the new YMCA facility in Salem.
- $600,000 was provided on a one-time basis to renew the Campus Veteran Resource Center Grant Program. Funding will support campus veteran resource centers throughout Oregon.
- $342,669 was provided on a one-time basis to increase funding for the Veteran Services Grant Program for the 2021-23 biennium. This supports the provision of direct services to Oregon veterans including mental health care, housing security, and employment.
- $185,000 was provided to establish a permanent Human Resource Analyst 1 (1.00 FTE) and the associated services and supplies costs. ODVA's current HR staffing consists of one management level position and one support analyst position, serving approximately 105 employees located across the state with a broad spectrum of workforce management needs.
- $175,000 was provided on a one-time basis to renew the Veteran Educational Bridge Grant Program. These grants are designed to provide some support to student veterans that find themselves unable to complete their academic programs on time due to the unavailability of a required class.
- $100,000 was provided to support the Statewide Veteran Services and Aging Veteran Services programs. The additional Lottery Funds are intended to mitigate the subsidization of these programs by ODVA's Home Loan Program revenues. This action will strengthen the financial sustainability of the Home Loan Program and reflect a best practice, as Loan Program revenues will be dedicated to Loan Program activities.
- $100,000 is added on a one-time basis for the Veteran Emergency Financial Assistance Program. Funding provides financial assistance to veterans with emergency needs, such as temporary housing and related housing needs, emergency medical or dental expenses and emergency transportation needs.

Other Funds of $6.3 million represents a 49.9% increase from the prior biennium. $6.1 million in expenditure limitation was provided to accommodate distribution of lottery bond proceeds for the YMCA veterans' affordable housing project and associated bond costs of issuance. Federal Funds increased 3.6% over the 2019-21 veterans' service budget. Federal Funds are primarily associated with ODVA serving as the U.S. Department of Veterans Affairs State Approving Agency for veterans' education programs. ODVA assumed this role 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.

The 2021-23 legislatively adopted budget funds ongoing veterans' services programs at the following levels:

- Statewide Veteran Services: $5.6 million General Fund, $5.3 million Lottery Funds, 36.00 FTE
- State Approving Agency: $152,205 Lottery Funds, $574,844 Federal Funds, 3.00 FTE
- County Veterans' Service Officers: $2 million General Fund, $7.5 million Lottery Funds
- National Service Organizations: $127,920 General Fund, $497,880 Lottery Funds

- Tribal Veteran Offices: $208,600 Lottery Funds
- Emergency Assistance: $112,270 General Fund
- Partnerships:
  - Campus Veteran Resource Centers grant program: $600,000 Lottery Funds
  - Veterans' Services Grant Fund: $938,118 Lottery Funds
  - Suicide Prevention Hotline: $378,922 Lottery Funds
  - Transportation Grants: $650,000 Lottery Funds, $1,043,000 Federal Funds
  - Veteran Educational Bridge Grants: $175,000 Lottery Funds

Legislatively Approved Budget

The 2021-23 legislatively approved budget for the Veterans' Services Program is $33.2 million total funds and 39 positions (39.00 FTE), which is a 1.0% increase from the 2021-23 legislatively adopted budget. The increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Oregon Veterans' Home Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	358,174	371,660	371,660	371,660
Other Funds	87,456,435	93,768,624	96,765,097	96,765,097
Federal Funds	1,706,284	--	--	--
Total Funds	**$84,808,811**	**$94,140,284**	**$97,136,757**	**$97,136,757**
Positions	5	4	4	4
FTE	5.00	4.00	4.00	4.00

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. 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 and exterior upgrades to the facility were completed in 2021. Both the interior and exterior renovation projects were funded in part through federal grants. As of June 30, 2020, The Dalles Veterans' Home had an average annual occupancy rate of 88%.

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. As of June 30, 2020, the Lebanon Veterans' Home was at 95% 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 $97.1 million is a 14.5% increase over the 2019-21 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. An increase in Other Funds expenditure limitation of $3,000,000, on a one-time basis, was provided to respond to anticipated cost increases related to providing care to veterans living in the two Oregon Veterans' Homes during the ongoing COVID-19 pandemic. This increase is supported by revenues from the Veterans' Home Program for the 2021-23 biennium.

Legislatively Approved Budget
The 2021-23 legislatively approved budget for the Veterans' Home Program is $97.2 million total funds and 4 positions (4.00 FTE), which is a 0.04% increase from the 2021-23 legislatively adopted budget. The very small relative increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Aging Veteran Services Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	492,969	600,495	759,063	786,853
Lottery Funds	3,063,600	2,988,878	3,878,644	3,983,134
Total Funds	**$3,556,569**	**$3,589,373**	**$4,637,707**	**$ 4,769,987**
Positions	12	12	14	14
FTE	12.00	12.00	14.00	14.00

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.

The Aging Veteran Services Division was established in the 2019-21 biennium to address the needs and concerns of the rapidly aging veteran demographic and their families as well as provide additional transparency in budgeted program expenditures. It was previously budgeted as part of the Veterans' Services Program. Oregon has one of the largest concentrations of aging veterans in the country, with slightly more than half of the veteran population being age 65 or older. This includes those who served during World War II and Korea, as well as the largest demographic in the state: Vietnam veterans. These numbers are expected to rise in the coming years and this aging population will need access to long-term care, home and community-based services, adult foster care, prescription medications, and increased health and dental care. Aging Veteran Services collaborates with all state, federal, and community partners to ensure aging veterans, their families, and caregivers receive advocacy and services.

The Division incorporates the Conservatorship and Representative Payee Program, Aging Veteran Outreach, and the Veteran Volunteer Program. The Conservatorship and Representative Payee Program assists veterans in managing their financial affairs by functioning as a conservator or a representative payee. The Aging Veteran Outreach Program works collaboratively with agency partners to coordinate benefits and services specific to the aging population. The Program educates other agencies and the public regarding aging veterans' benefits and file claims on behalf of veterans residing in a veterans' home or participating in the conservatorship program. The Veteran Volunteer Program was established to create a volunteer network trained to locate and assist veterans with their benefits. The Program also provides ongoing training and oversight for volunteers.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $4.6 million total funds total funds represents a 30.1% increase from the 2019-21 legislatively approved budget. The adopted budget includes $750,000 Lottery Funds on a one-time basis to continue the agency's progress towards replacing the Conservatorship Program system. Funding approved in the 2019 session for this project was eliminated in the 2020 second special session. The current system is an outdated legacy application running on COBOL language with dependency on a single contracted application developer. In the 2019-21 biennium, ODVA contracted professional services for project management and business analysis and has worked with Enterprise Information Services (EIS) to meet all state oversight and planning requirements. This package provides funding to procure and implement a solution during the 2021-23 biennium.

Legislatively Approved Budget
The 2021-23 legislatively approved budget for the Aging Veterans' Services Program is $4.8 million total funds and 14 positions (14.00 FTE), which is a 2.9% increase from the 2021-23 legislatively adopted budget. The increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	--	--	--
Federal Funds	--	--	--	--
Total Funds	**--**	**--**	**--**	**--**

Legislatively Adopted Budget
The 2019-21 legislatively approved budget and 2021-23 legislatively adopted budget did not include any expenditure limitation for new capital construction projects. Other Funds and Federal Funds capital construction expenditure limitation was included in the 2017-19 budget for multiple Veterans' Home capital projects. Federal Funds were provided for a U.S. Department of Veterans Affairs (USDVA) construction grant to complete exterior upgrades to The Dalles Veterans' Home; upgrading exterior garden areas; replacing an industrial water heater; and replacing interior windowsills. Federal Funds were 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 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 three projects funded with the proceeds of Article XI-Q general obligation bonds. This included a new parking lot at the Lebanon Veterans' Home, and capital improvements to The Dalles Veterans' Home.

Lottery bonds for the Roseburg Veterans' Home were initially approved in 2011-13 and were reauthorized in the two subsequent biennia. During the 2017 session, $10.5 million of Article XI-Q general obligation bonds were authorized and capital construction limitation was re-established for a new six-year period. However, bonds have not been issued in prior biennia and were not reauthorized in the 2021 session. Construction of the third home has not occurred for multiple reasons, including absence of a USDVA construction grant award that would provide 65% of the funding, lack of remaining matching funds, and concerns that the facility would maintain necessary occupancy to operate a sustainable level. ODVA reported on progress of the home in 2018 and recommended 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 12.4 acres 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. The transfer of land and construction of the new home will not begin until ODVA has been awarded a competitive USDVA construction grant, which is dependent up ODVA securing the required 35% state match. ODVA intends to base the Roseburg home on the "small home care" model used in the Lebanon Veterans' Home. ODVA estimates construction costs of $71 million for a 154-bed facility. USDVA construction grant funds would potentially cover $46.2 million (65%) with $24.8 million (35%) of matching funds needed from state or local resources.

<u>Legislatively Approved Budget</u>
No changes were made to the Capital Improvements program during the 2021 special sessions or the 2022 session.

CONSUMER AND BUSINESS SERVICES

PROGRAM AREA

BOARD OF ACCOUNTANCY

Analyst: Graham

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	2,905,362	3,277,122	3,182,967	3,263,399
Total Funds	**$2,905,362**	**$3,277,122**	**$3,182,967**	**$3,263,399**
Positions	8	8	8	8
FTE	7.50	7.50	7.50	7.50

Overview

The Board of Accountancy is a seven-member citizen board that licenses and regulates approximately 9,300 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 constitute 93.5% of the Board's funding. The Board licenses about 8,300 individuals and 1,000 accounting firms. Individual licensees pay their renewal fees every other year based on the last digit of their license, whereas CPA firms pay their renewal fees in December of every odd-numbered year. The Board projects $5,331,313 of total available revenue for the 2021-23 biennium, which includes a beginning balance of $2,275,368 Other Funds. At the beginning of the 2021-23 biennium, the Board is expected to have an ending balance of $2,148,346 Other Funds, which represents about 16.1 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

The Board's examination applications and active memberships are stable. The Board expects its base of licensees to remain relatively consistent this biennium; however, as the CPA examination is scheduled to change in 2024, the change may cause the number of examination applicants to decrease slightly. The Board's operating costs are relatively stable and consistent with prior biennia, considering the Board's continually growing cash balance. While increases in state government service charges and shared financial services are anticipated in AY 2023, the increase is accounted for in the Board's current budget.

In terms of challenges, the Board is faced 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 continue to reflect three major changes for the accounting profession: (1) evolving smart and digital technology; (2) continued globalization of reporting and disclosure standards; and (3) new state, federal, and international regulations. 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. To address these challenges, the Board has been in the process of developing information technology (IT) solutions. In the prior biennium, the Board updated its website to include an online portal to accept payments and process renewal applications. The Board also plans to develop a new online licensing system this biennium, in which all applicants, candidates, licensees and respondents will be able to make payments online, and individuals and firms will be able to update their demographics, addresses, ownership structures, CPE documentation and other pertinent information. While this new online licensing system will allow for much quicker and efficient processing for licensing, it should be noted that the new licensing system will involve a one-time increase in IT costs for maintenance and upkeep. It is unclear, however, whether any additional maintenance and IT oversight will be needed, in addition to the one-time costs.

Another significant challenge to the Board's operations has been the COVID-19 pandemic. With the pandemic still ongoing, it is unclear how travel, training and office maintenance costs will be affected this biennium, which could be sources of instability. For example, it is unknown whether travel for training will be viable in AY 2023; and if staff continue to work remotely, the Board may continue to see lower office maintenance costs. While the continued need for social distancing protocols may continue to present obstacles to the Board's operations, the Board has been preparing solutions, including the online portal, which allows staff to work from home in a more streamlined fashion. The Board has also instituted a more streamlined process for investigating and adjudicating complaints. In large part due to filling a vacant investigator position last biennium, the backlog of cases pending board decision, post finding and total active cases in the Board's docket have dramatically decreased in the last few years. However, the Board is currently trying to fill its lead investigator position, which, if not filled, could once again increase its backlog of complaints.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Board of Accountancy totals $3,182,967 Other Funds and is a 9.5% increase from the 2019-21 legislatively approved budget due to statewide and inflationary adjustments. The legislatively adopted budget does not include any significant additional resources, yet allows the Board to continue its current operations, including the operational-level focus on efficiency.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Board of Accountancy totals $3,263,399 and is a 2.5% increase from the 2021-23 legislatively adopted budget. The Board's legislatively approved budget adjustments included changes related to the state employee compensation plan and other technical adjustments for state agencies.

BOARD OF CHIROPRACTIC EXAMINERS

Analyst: Coates

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	2,310,856	2,309,928	2,146,466	2,173,510
Total Funds	**$2,310,856**	**$2,309,928**	**$2,146,466**	**$2,173,510**
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, 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 94%) 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 is expected to seek a fee increase for the 2023-25 biennium due to a low ending fund balance. Fees were last increased during the 2013-15 biennium.

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 requires 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 2021-23 legislatively adopted budget for the Board of Chiropractic Examiners totals $2,146,466 Other Funds, which is a 7.1% decrease from the 2019-21 legislatively approved budget. The budget includes a decrease in expenditure limitation of $80,000 Other Funds in the agency’s services and supplies expenditure category to bring the agency’s ending fund balance in line with a recommended three to six months of operating reserves.

Legislatively Approved Budget

The 2021-23 legislatively approved budget increased the agency’s budget by 1.3% over the 2021-23 legislatively adopted budget. The approved budget includes an expenditure limitation increase of $27,044 Other Funds, for salary and statewide compensation adjustments through the end of the 2021-23 biennium.

CONSTRUCTION CONTRACTORS BOARD

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	16,424,675	16,830,996	17,837,162	18,316,626
Total Funds	**$16,424,675**	**$16,830,996**	**$17,837,162**	**$18,316,626**
Positions	61	60	59	59
FTE	61.00	60.00	59.00	59.00

Overview

The Construction Contractors Board (CCB) provides consumer protection and regulates the profession of construction contracting by licensing or certifying construction-related businesses such as contractors, home inspectors, lead-based paint renovators, locksmiths, flaggers, and home energy assessors. 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 $1.1 million will be transferred to the General Fund during the 2021-23 biennium.

The impacts of the COVID-19 pandemic and a temporary fee reduction have made it difficult to accurately project agency revenues for the 2021-23 biennium. 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 due to an exceptionally high ending balance. These revenue reduction measures were extended into the 2019-21 biennium. However, miscalculation of the agency's 2019-21 beginning balance, coupled with a drop off in licensees due to the COVID-19 pandemic, caused the agency's 2019-21 ending balance to decrease further than projected. The agency did not request any significant budget increases during the 2021-23 budget cycle due to limited operational reserves and uncertainty about how the pandemic would impact the construction industry and agency licensees going forward.

Budget Environment

The onset of the COVID-19 pandemic caused licensing numbers to falter with decreased license applications and renewals in the latter half of the 2019-21 biennium. It is still not clear if the pandemic will continue to impact licensing numbers into the 2021-23 biennium and beyond.

Due to uncertainty about declining licensing numbers and potential revenue impacts, the agency was directed to return to the Legislature during the 2022 legislative session to report on:

- Actual and projected revenues for the 2021-23 and 2023-25 biennium.
- An updated timeline and proposal for resourcing a new licensing system as a result of this revenue outlook.
- A comprehensive review of agency-wide staffing needs, to include an assessment of long-term budget and accounting needs.

Legislatively Adopted Budget

The total legislatively adopted budget for the Construction Contractors Board is $17.8 million, which represents an increase of $1.4 million, (or 8.6%) from the 2019-21 legislatively approved budget. The budget includes a $544,000 increase in Other Funds expenditure limitation for Services and Supplies, to better align the agency's budget with its historic spending patterns. The budget also includes an increase of $775,000 Other Funds, to account for a change in accounting methodology for testing fees paid to an external contractor. Finally, the budget eliminates three vacant positions to fund a new Human Resources Analyst 3 position and an Operations and Policy Analyst 1 position to serve as a liaison between licensing, enforcement, and IT operations, and to continue work within the agency to improve the existing licensing system and prepare for possible new licensing system investments.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Construction Contractors Board totals $18.3 million Other Funds, which is an increase of $475,464, (or 8.6%), due to salary and other compensations adjustments through the end of the 2021-23 biennium. No additional budget adjustments were made during the 2022 session.

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,303,041	--	12,464,196	12,557,108
Other Funds	401,722,792	291,466,177	382,343,491	390,652,315
Other Funds (NL)	212,153,969	172,013,483	172,013,483	172,013,483
Federal Funds	113,663,321	16,658,560	118,285,014	121,930,616
Total Funds	**$728,843,123**	**$480,138,220**	**$685,106,184**	**$697,153,522**
Positions	963	955	950	950
FTE	957.92	950.67	941.15	941.15

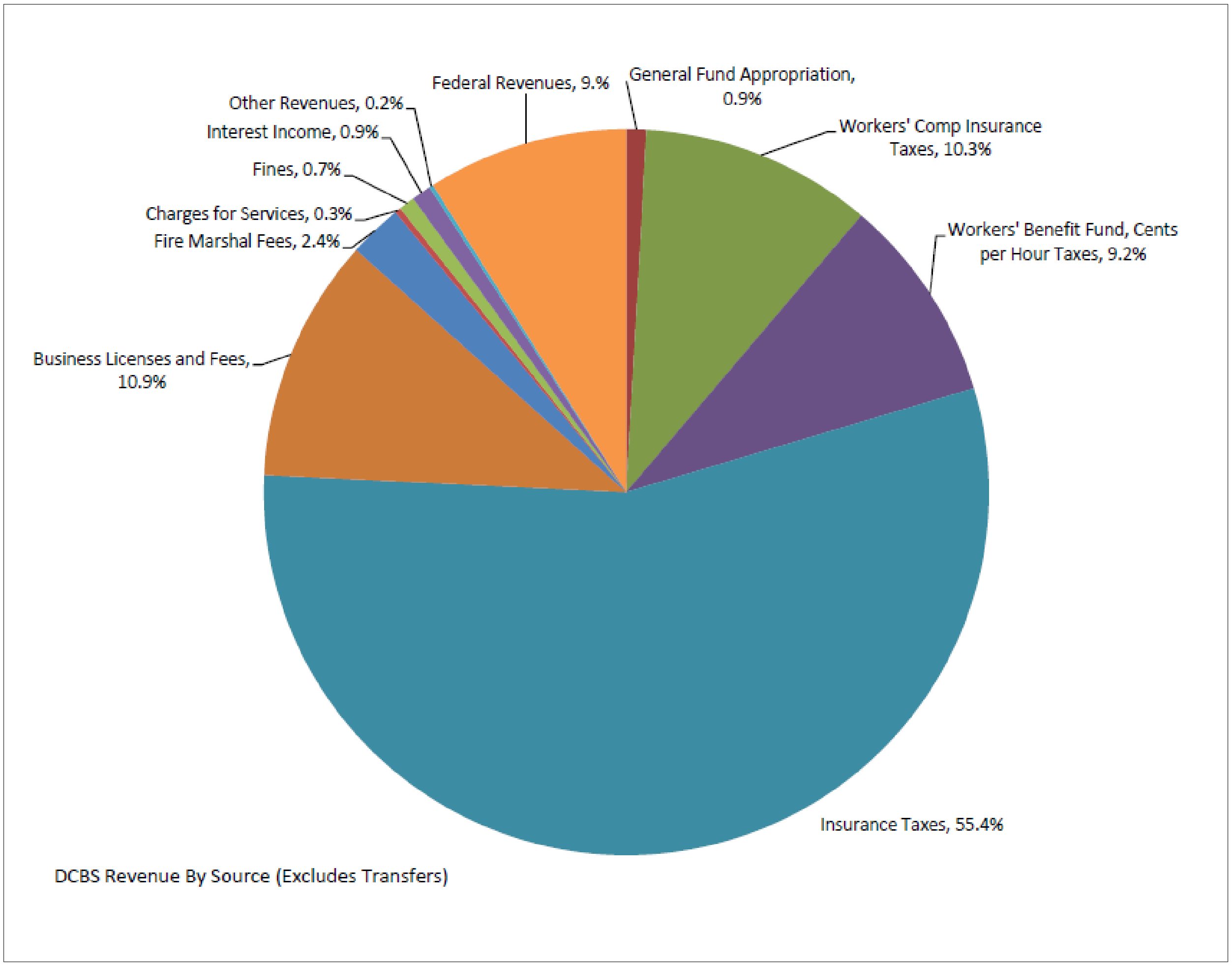
Overview

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 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 treated as 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 19.2% 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 14.3% 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. SB 65 passed in the 2021 session transfers the duties, functions, and powers of the health insurance exchange and the Compact of Free Association (COFA) Premium Assistance Program to the Oregon Health Authority effective June 30, 2021.

The Senior Health Insurance Benefit Assistance (SHIBA) program also managed within the division will be transferred to the Department of Human Services for 2021-23 in an effort to consolidate all the SHIBA funding and programs into one state agency.

<u>Revenue Sources and Relationships</u>
The agency is primarily funded by Other Funds. Over 500 dedicated fees, assessments, and charges support the operation of DCBS. Revenues in the 2021-23 legislatively adopted budget are projected to total $1.134 billion.



Approximately 13.9% of these revenues ($157.7 million) will be transferred to the General Fund. During the 2021-23 biennium the agency is forecasted to transfer $129 million of retaliatory insurance tax revenue, $26.1 million in excess securities dealer licensing and securities registration fees, and $2.67 million of revenues from interest earnings, fees, and fines to the General Fund.

Other Funds transfers, Federal Funds transfers, and Special Payments include $29.7 million to the Department of State Police for the State Fire Marshal's office from an assessment the Department levies on insurance policies covering fire perils, $1.64 million to the Bureau of Labor and Industries Workers' Compensation related investigations, $210.3 million to health insurers under the Oregon Reinsurance Program established by HB 2391 (2017), $183.3 million to the Oregon Health Authority for providing medical assistance and other health services defined by statute, $988,578 to counties to support the cost of building code inspection and enforcement programs, and $375,000 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 2020 was 9.0%; the rate as of January 1, 2022, is 9.8% for non-self-insured employers, 9.9% for self-insured employers and public self-insured employer groups, and 10.3% 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 9.8% is dedicated to funding the adjustment reserve accounts for self-insured employers and employer groups.

Workers' Benefit Fund revenue is primarily derived from a cents-per-hour assessment on all wages paid in Oregon. The 2021 rate is 2.2 cents per hour; the 2022 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 into 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 $13.5 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 of $1.81 million which will be transferred to the Department of Human Services in the 2021-23 biennium. Federal Funds revenue is also received by the Building Codes program to provide consumer assistance to individuals with complaints about manufactured homes. Roughly $106.2 million in Federal Funds revenue is anticipated from section 1332 federal 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.

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.

The Oregon Health Insurance Marketplace, Compact of Free Association Premium Assistance, and the Senior Health Insurance Benefit Assistance programs are transferring to other state agencies for 2021-23.

2021 legislation has added funding for behavioral health benefits (HB 3046), student loan servicers licensure (SB 485), pharmaceutical representative licensure (SB 763), and the establishment of a prescription drug affordability board (SB 844). Additionally, a General Fund appropriation was added to establish a Residential and Commercial Fire Hardening Grant Program as part of the Wildfire Recovery Initiative.

Legislatively Adopted Budget

The 2021-23 legislatively adopted total funds budget for the Department of Consumer and Business Services (DCBS) is $685,106,184 and includes 950 positions (941.15 FTE). The budget includes $172 million in Other Funds Nonlimited for Workers' Compensation and Insurance program payments. This budget is a 5.3% decrease from the 2019-21 legislatively approved budget. The vast majority of this decrease is due to a $40 million Other Fund Nonlimited expenditure authority technical adjustment downward to reflect anticipated expenditures in the Workers' Benefit Fund. Excepting those amounts, the agency's budget increased by $1,901,199 total funds; a less than 1% increase from the legislatively approved budget for 2019-21.

Programs within the Oregon Health Insurance Marketplace are to be transferred to other state agencies further reducing the DCBS budget for 2021-23. SB 65 transfers the health insurance exchange and the Compact of Free Association Premium Assistance Program to the Oregon Health Authority. In addition, the Senior Health Insurance Benefit Assistance program will transfer to the Department of Human Services. These transfers reduce the DCBS budget by $14,870,281 Other Funds, $1,813,619 Federal Fund, and 22 positions (22.00 FTE).

New for 2021-23, DCBS received a $10.7 million General Fund appropriation and one position (1.00 FTE) as part of the Wildfire Recovery Initiative. This funding is for a new grant program to incentivize residential and commercial fire hardening for rebuilding and repairing dwellings and other structures that were destroyed or damaged in the 2020 wildfires. SB 844 appropriated an additional $1.8 million General Fund and 8 positions (5.26 FTE) to DCBS for the establishment of a Prescription Drug Affordability Board.

Significant Other Funds investments include $708,708 and 3 positions (3.00 FTE) for oversight of new requirements for behavior health benefit carriers regarding nonquantitative treatment limitations established by HB 3046. $698,944 Other Funds and 2 positions (2.00 FTE) were added to create a regulatory program for pharmaceutical representatives and requires representatives to obtain a license established by SB 763

The largest single item included in the DCBS budget is one-time expenditure limitation of $105,582,585 Other Funds and $104,411,583 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.

Legislatively Approved Budget Update

The legislatively approved budget for DCBS totals $697.2 million. The budget increased by $12 million (or 1.8%) from the 2021-23 legislatively adopted budget.

The majority of the increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session. The remainng increase is due to a federal grant totaling $2.9 million from the U.S. Department of Labor for Oregon OSHA's COVID-19 related costs.

Workers' Compensation System

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	116,315,330	128,166,874	127,207,052	130,852,425
Other Funds (NL)	4,062,034	4,062,034	4,062,034	4,062,034
Federal Funds	12,500,574	13,751,762	13,457,541	16,882,847
Total Funds	**$132,877,938**	**$145,980,670**	**$144,726,627**	**$151,797,306**
Positions	470	468	465	464
FTE	466.88	465.00	462.00	461.50

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 – ($46,385,594 Other Funds, $4,062,034 Other Funds Nonlimited, 173 Positions, 171.50 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) – ($50,140,949 Other Funds, $13,457,541 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) – ($28,110,523 Other Funds, 79 positions, 79.00 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 – (6 positions, 6.00 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 2021 is 9.0%; the rate as of January 1, 2022 is 9.8% for non-self-insured employers, 9.9% for self-insured employers and public self-insured employer groups, and 10.3% 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 9.8% is dedicated to funding the adjustment reserve accounts for self-insured employers and employer groups.

The Workers' Compensation program also also anticipated to receive $2.8 million in interest income, as well as $4.1 million in other revenue, of which $3.7 million is from OR-OSHA fines and forfeitures. In addition, the OR-OSHA Division receives $13.4 million of Federal Funds to support the federal OSHA program in Oregon. The program transfers $1.6 million Other Funds to the Bureau of Labor and Industries 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 $4.1 million Other Funds Nonlimited to Oregon Health and Science University, Oregon Institute of Occupational Health Sciences for research on occupational illness and disease.

Roughly $35.1 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment
Employment and economic 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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted total funds budget of $144,487,050 for the Workers' Compensation System is $11.8 million (or 8.9%) higher than the legislatively approved budget for the 2019-21 biennium. The budget generally continues funding for the program at the current service level and increases are primarily due to personal services inflation.

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 three positions were replaced with Other Funds to align the agency's budget with anticipated revenues.

Legislatively Approved Budget Update
The legislatively approved budget for the Workers' Compensation System totals $151.8 million. The budget increased by $7.1 million (or 4.9%) from the 2021-23 legislatively adopted budget.

The majority of the increase is due to a Federal Fund expenditure limitation increase authorized to accomodate a federal grant from the U.S. Department of Labor for federal Occupational Safety and Health Administration costs. The federal funds provided by the grant will cover COVID-19 related costs that Oregon OSHA is currently paying for with Other Funds, freeing up state funding to pay for Oregon OSHA safety conferences and consultations to underrepresented communities; replacement of lab equipment; public education material for employers; and the continuation of a grant program that provides funds to community organizations for health and safety training. The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Workers' Compensation Nonlimited Accounts

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Self-Insured Employers: Other Funds (NL)	800,000	800,000	800,000	800,000
Workers' Benefit Fund: Other Funds (NL)	204,512,434	164,512,434	164,512,434	164,512,434
Total Funds	**$205,312,434**	**$165,312,434**	**$165,312,434**	**$165,312,434**

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 2022 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 9.8%. 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. The rate remains at 2.2 cents through 2022.

Legislatively Adopted Budget

The 2021-23 legislatively adopted total funds budget of $165,312,434 for the Workers' Compensation Nonlimited accounts is $40 million (or 19.5%) lower than the legislatively approved budget for the 2019-21 biennium. The $40 million budget decrease is an expenditure authority technical adjustment to made to better reflect anticipated expenditures.

Legislatively Approved Budget Update

No changes were made in the Workers' Compensation Nonlimited Accounts for the legislatively approved budget.

Financial Regulation

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	1,621,949	1,679,374
Other Funds	149,813,824	53,258,925	160,254,698	162,342,915
Other Funds (NL)	694,911	694,911	694,911	694,911
Federal Funds	85,931,387	707,423	104,411,874	104,441,874
Total Funds	**$236,440,122**	**$54,661,259**	**$267,013,432**	**$269,159,074**
Positions	175	170	184	185
FTE	174.79	169.50	180.34	179.84

Program Overview

The Financial Regulation Division operates two regulatory programs, the Insurance Program and the Finance and Corporate Securities program.

The Insurance Program serves as the regulatory and consumer protection agency of the state for insurance products. The program licenses insurance companies, agents (producers), adjusters, and consultants to ensure compliance with Oregon insurance laws and to ensure competency in the insurance products sold by producers in the state. The program evaluates the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of the insured and claimants. The program provides independent customer advocacy and education, assists consumers in resolving complaints against agents and companies, enforces the Insurance Code, and collects and audits taxes of insurance companies.

Additionally, the Insurance program operates the following sub-programs:

- The Financial and Producer Regulation (FPR) program ensures the financial viability of, collects the applicable taxes of, and regulates the entry of insurers in Oregon. FPR also establishes licensing criteria and monitors compliance of licensed producers.
- The Market Regulation program produces market conduct examinations and market analyses to determine insurer compliance with insurance laws and the performance of duties to policy holders. The program houses a consumer advocacy program, which investigates and resolves complaints against insurers and producers.
- The Product Regulation program reviews all of the forms and rates for certain insurance lines and monitors insurer's compliance with health insurance reforms.

The Finance and Corporate Securities (DFCS) program enforces laws and regulations related to the operation of financial service companies, financial products, and financial product dealers in Oregon. These include banks, credit unions, mortgage bankers, trust companies, security dealers, and a varied mix of consumer finance companies. DFCS also registers and regulates debt collectors and regulates, but does not require registration of, franchises.

The Finance and Corporate Securities program operates the following five sub-programs:

- Banks, Trusts, and Credit Unions – Provides charters for banks, trusts, and credit unions in Oregon and regulates and examines those state-chartered entities in coordination with federal regulators.
- Securities – Registers such offerings made in Oregon and licenses business and individuals selling securities or providing investment advice. The program maintains a consumer protection role by receiving consumer complaints regarding securities and securities dealers.
- Mortgage Lending – Licenses and examines mortgage bankers, manufactured structure dealers, brokers, and loan originators. The program maintains a consumer protection role by providing consumer education regarding mortgage lending and foreclosure counseling, as well as receiving consumer complaints.
- Non-Depository – Licenses, registers, examines, and investigates consumer finance companies, payday and title lenders, pawnbrokers, check cashing businesses, collection agencies, debt management service providers, money transmitters, prearranged funeral plans, and endowment care cemeteries.
- Enforcement – Provides Division-wide investigation of violations and initiates administrative, civil, and criminal actions against violators.

<u>Revenue Sources and Relationships</u>

There are three primary revenue streams for the Insurance program: insurance premium taxes, licensing fees, and the fire insurance premium tax. In addition to these, the program receives revenues from fines and fees on non-compliant insurers and producers, fees for testing and examinations, interest income, and federal grants.

The program collects retaliatory taxes from out-of-state insurance companies. This tax typically represents the difference between the regulatory burden in the insurer's domiciled state and the regulatory burden in Oregon where the policy is written. This is done to equalize the regulatory cost of a foreign insurance company writing policies in Oregon with the regulatory cost of writing policies in the insurer's domiciled state. Retaliatory taxes, fines, and interest earnings are transferred to the General Fund. The projected transfer for the 2021-23 biennium is approximately $129 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 2021-23 is $29.7 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 $26.1 million to the General Fund in the 2021-23 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 $11.8 million in program revenues are transferred to the Central Services Division to support the administrative functions of the agency.

Budget Environment

The budget and workload of the insurance program is closely tied to the number of Oregon domiciled insurers, the number of insurers writing policies in Oregon, and the number of producers (agents). For all 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 would not be expected to significantly increase.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Division of Financial Regulation is $266,925,920, an increase of $30.6 million (or 12.9%) from the legislatively approved budget for 2019-21.

The increase in the DFR budget is mostly due to the provision of one-time expenditure limitation of $105,582,585 Other Funds and $104,411,583 Federal Funds to allow the Department to make payments to insurers under the Oregon Reinsurance Program established by HB 2391 (2017). Additional budget increases of note are:

- Prescription Drug Affordability - The establishment of the Prescription Drug Affordability Board (SB 844) added $1.8 million and 8 positions (5.26 FTE).
- Behavioral Health Benefits - $708,708 and 3 positions (3.00 FTE) Other Funds expenditure limitation was added for oversight of new requirements for behavior health benefit carriers regarding nonquantitative treatment limitations established by HB 3046.
- Pharmaceutical Representative Licensure - SB 763 established a regulatory program for pharmaceutical representatives and requires representatives to obtain a license from DCBS. Other Funds expenditure limitation of $698,944 and 2 positions (2.00 FTE) were added for the new program.

Legislatively Approved Budget Update

The legislatively approved budget for the Financial Regulation Division totals $269.2 million. The budget increased by $2.1 million (or 0.8%) from the 2021-23 legislatively adopted budget. The budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Building Codes

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	10,678,004	10,693,448
Other Funds	39,855,422	43,848,416	43,639,212	44,550,727
Federal Funds	254,624	29,152	28,995	273,802
Total Funds	**$40,110,046**	**$43,877,568**	**$54,346,211**	**$55,517,977**
Positions	135	134	135	135
FTE	135.00	134.00	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 $9.3 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 2021-23 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 2021-23 legislatively adopted total fund budget of $54,277,308 for the division is $14.2 million, or 35.2%, higher than the legislatively approved budget for the 2019-21 biennium. The budget increase is primarily due to a General Fund appropriation of $10.7 million and 1 position (1.00 FTE) approved as part of the Wildfire Recovery

Initiative. This funding is for a new grant program to incentivize residential and commercial fire hardening for rebuilding and repairing dwellings and other structures that were destroyed or damaged in the 2020 wildfires.

Legislatively Approved Budget Update
The legislatively approved budget for the Building Codes Division totals $55.5 million. The budget increased by $1.2 million (or 2.2%) from the 2021-23 legislatively adopted budget. The budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Oregon Health Insurance Marketplace

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,299,319	--	--	--
Other Funds	15,861,934	15,866,272	529,654	437,433
Federal Funds	1,662,376	1,813,619	--	(31,836)
Total Funds	**$18,823,629**	**$17,679,891**	**$529,654**	**$405,597**
Positions	23	22	--	--
FTE	22.25	22.00	--	--

Program Overview
The Oregon Health Insurance Marketplace provides access to affordable, high-quality health insurance coverage. The program certifies and oversees qualified health plans that are presented on the federally administered HealthCare.gov website. 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 (COFA). The program is housed within the Insurance Marketplace Division; however, the program is separate from the exchange program.

For the 2021-23 biennium the Oregon Health Insurance Marketplace and COFA will be transferred to the Orgon Health Authority as approved by SB 65. Additionally, the SHIBA program will be transferred to the Department of Human Services.

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 $5.50 for medical plans and $0.36 for dental plans.

In December 2020, the federal government adopted legislation reinstating Medicaid eligibility for COFA residents. Many, if not all, of the individuals who currently receive support through the COFA Premium Assistance Program, which is funded with General Fund, are assumed to be eligible for Medicaid and will therefore transfer out of the program and to the comprehensive coverage provided by the Oregon Health Plan, which is supported, in part, with federal matching funds. OHA will use COFA Premium Assistance Program funds transferred from DCBS to cover existing COFA Program enrollee monthly premiums and program closeout. The transfer of COFA Program enrollees to the Oregon Health Plan will decrease the General Fund amount needed to fund the Premium Assistance Program and increase the combination of state funding (both General Fund and provider assessment revenue) and federal Medicaid matching funds needed for the Oregon Health Plan. The remaining balance of $302,409 will be transferred as DCBS transitions the program to the Oregon Health Authority.

Federal Funds grant revenue supporting the Senior Health Insurance Benefit Assistance program is forecasted to be $1.81 million in the 2021-23 biennium.

<u>Budget Environment</u>
The Oregon Health Insurance Marketplace continues to use the federal healthcare exchange platform (Healthcare.gov) for participant enrollment. The final rule initially released by the U.S. Department of Health and Human Services (HHS) established a user fee of 1.75% assessed against the premium cost of policies purchased through the federal exchange for the 2022 plan year. The federal government has proposed to increase this fee to 2.25% and they anticipate to release a revised final rule in September 2021. 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.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget for the Oregon Health Insurance Marketplace (OHIM) program is $925,647. This amount is a $17.9 million or 95.1% decrease from the 2019-21 legislatively approved budget.The substantial decrease is due to the transfer of all three programs within the OHIM to other state agencies. A total decrease of $14.9 million Other Funds and 18 positions (18.00 FTE) represents the transfer of the health insurance exchange and the Compact of Free Association (COFA) Premium Assistance Program to the Oregon Health Authority (OHA). Lastly, the transfer of Senior Health Insurance Benefits Assistance (SHIBA) program to the Department of Human Services represents a $1.8 million Federal Funds and 4 position (4.00 FTE) reduction. The remaining $925,657 budget will be adjusted to zero once the transfers are complete.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for the Oreon Health Insurance Marketplace totals $405,597. The budget decreased by $124,057 (or 23.4%) from the 2021-23 legislatively adopted budget. This derease reflects adjustments made as part of the transfer of OHIM from DCBS to OHA.

Central Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	164,243	184,286
Other Funds	45,168,286	50,325,690	50,712,875	52,468,815
Other Funds (NL)	1,446,452	1,944,104	1,944,104	1,944,104
Federal Funds	321,317	356,604	356,604	363,929
Total Funds	**$46,936,055**	**$52,626,398**	**$53,177,826**	**$54,961,134**
Positions	160	161	166	166
FTE	159.00	160.17	163.81	164.81

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 subprograms.

- 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 $55.4 million from the Department's operating divisions. In addition, $1.9 million Other Funds Nonlimited expenditure limitation is included in the program's budget from the Workers' Benefit Fund to cover direct costs of certain administrative functions and collection costs for debt owed the department.

Federal funds of $356,604 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 2021-23 legislatively adopted total funds budget of $53,177,825 for the Central Services Division is $6.2 million, or 13.3%, higher than the legislatively approved budget for the 2019-21 biennium. This increase is primarily due to base budget adjustments for the implementation of the permanent finance plan changes that were approved in the previous biennium, including the addition of one position (1.17 FTE).

Legislatively Approved Budget Update

The legislatively approved budget for the Central Services Division totals $54.9 million. The budget increased by $1.8 million, or 3.4%, from the 2021-23 legislatively adopted budget. The budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

BOARD OF DENTISTRY

Analyst: Coates

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	3,628,054	3,711,985	3,768,719	3,859,254
Total Funds	**$3,628,054**	**$3,711,985**	**$3,768,719**	**$3,859,254**
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 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 94% of the Board's revenue. Fees were last increased in 2015 and no fee increase is anticipated during the 2021-23 biennium.

Budget Environment
The Board has seen very modest growth in new and renewed licenses since 2013. As of March 31, 2022, the Board has approximately 3,800 licensed dentists and 4,200 licensed dental hygienists. Total licensees decreased by approximately 1.2% due to the COVID-19 pandemic. Projected licensee growth and the regulatory workload are anticipated to remain relatively flat in the upcoming biennium. The agency anticipates there may be additional impacts on licensing numbers as some dental professionals may choose to retire early or not renew licenses due to the COVID-19 pandemic. Since renewal of licenses is two years, the total impact on licensing numbers due to the COIVD-19 pandemic may not be fully understood until later in the 2021-23 biennium.

A new dental therapist license type was added to the agency under HB 2528 (2021). Though only a small number of dental therapist licensees are anticipated when this license type first becomes available, the establishment of this new category of dental professional may have budgetary impacts as the number of licensees increase. The Board is authorized to establish fees for this new license type.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget increases the agency's budget by 3.7% over the 2019-21 legislatively approved budget. The budget includes an expenditure limitation increase of $85,416 Other Funds, to implement a new licensing database and pay for other miscellaneous Information Technology costs.

Legislatively Approved Budget
The 2021-23 legislatively approved budget increased the agency's budget by 2.4% over the 2021-23 legislatively adopted budget. The approved budget includes an expenditure limitation increase of $90,535 Other Funds for salary and statewide compensation adjustments through the end of the 2021-23 biennium.

HEALTH-RELATED LICENSING BOARDS

Analyst: Morse-Miller

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	7,710,936	8,554,547	8,179,912	8,588,557
Total Funds	**$7,710,936**	**$8,554,547**	**$8,179,912**	**$8,588,557**
Positions	24	23	23	23
FTE	23.00	22.00	21.90	22.15

Overview
The Health-Related Licensing Boards (HRLB) are six independent licensing boards combined into one agency for the purposes of budget reporting and sharing of resources. These boards separately 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 information technology services through an interagency agreement. 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. Four of the Boards (the Board of Naturopathic Medicine, Occupational Therapy Licensing Board, Board of Medical Imaging, and the Board of Examiners for Speech-Language Pathology and Audiology) increased fees to offset increasing administrative costs. Most of these fees have not increased in about a decade.

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.

Over the past several years, the Executive Directors of the HRLBs have encountered challenges in coordinating a shared organizational structure, resources, information technology, and budget and accounting needs. For example, during the last three biennia, with the hope of retaining autonomy from the Department of Administrative Services while realizing savings, the six boards opted to share a position, originally approved as an accountant series position. It was later decided that an accountant was not appropriate, and a fiscal analyst was hired. The HRLBs hired several fiscal analysts who later left the agency, leaving the HRLBs to seek immediate assistance from the Department of Administrative Services (DAS) Shared Financial Services (SFS) during the 2017-19 biennium.

The 2021-23 legislatively adopted budget includes a budget note directing the HRLBs, in consultation with the Department of Administrative Services - Chief Financial Office (DAS CFO), to undertake a comprehensive review of the shared needs of the six Boards in order to identify the most efficient and cost-effective method to achieving those needs. The review should contemplate which of the following outcomes is the most cost effective and programmatically efficient: (1) remaining an independent agency utilizing contracted information technology and budget and accounting services through DAS or another third party; or (2) becoming a part of the Oregon Health Authority's Health Licensing Office starting in the 2023-25 biennium. The review should include cost and service comparisons and rationale for any proposed outcome. If the proposal is to remain independent, the plan must include staffing, budgetary, operational, and structural changes that will facilitate efficient administrative functions related to interagency coordination and the sharing of resources among the six boards. The HRLBs and DAS CFO were to jointly report their findings to the Joint Committee on Ways and Means during the 2022 legislative session.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget totals $8,179,912 Other Funds and 23 positions (21.90 FTE). The budget is a 6% increase from the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update
The 2021-23 Legislatively Approved Budget for the HRLBs includes employee compensation plan adjustments, as well as an increase in Other Funds expenditure limitation and additional FTE for the Oregon Board of Medical Imaging (OBMI). These adjustments result in a total budget of $8,588,557 Other Funds and 23 positions (22.15 FTE) which is $408,645, or 5%, higher than the legislatively adopted budget.

More detail follows for each individual board.

Mortuary and Cemetery Board

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	2,405,424	2,680,688	2,832,630	2,915,294
Total Funds	**$2,405,424**	**$2,680,688**	**$2,832,630**	**$2,915,294**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Overview
The mission of the Oregon Mortuary and Cemetery Board (OMCB) is to protect public health, safety, and welfare by fairly and efficiently performing licensing, inspection, and enforcement duties of individuals and facilities in the death care industry. The death care industry refers to the practice of individuals and facilities engaged in the care, preparation, processing, transportation, and final disposition of human remains. Board licensees include funeral service practitioners (e.g. embalmers, apprentices, interns, pre-need sales professionals) and funeral establishments (e.g. immediate disposition companies, alternative disposition facilities, cemeteries, and crematories). The Board promotes professional behavior and standards in all facets of the Oregon death care industry by maintaining constructive relationships with licensees and those they serve, as well as others with an interest in the Board's activity. The eleven-member Board, appointed by the Governor, includes two funeral service practitioners, one embalmer, three cemetery representatives, one crematory operator, and four public members, with one public member from an association representing older adults.

Revenue Sources and Relationships
The Board is funded solely by Other Funds revenue from license and examination fees and a $14 portion of the $20 death certificate filing fee. Individual and facility licenses renew in alternate years of the biennium and death certificate filing fees are billed monthly to death care facilities. For cash flow purposes, the Board requires at least a six-month operating reserve ending balance, due to the license renewal cycle. Revenues have remained steady, though the licensee count has decreased since the 2013-15 biennium. The agency has been able to keep their revenue stream high by carrying over a significant ending balance for the last two biennia.

In addition to the Board's general operations expenses, the death certificate filing fee funds the Indigent Disposition Program (IDP). Per statute, $6 of the $20 death filing fee collected are required to be used for the IDP Fund. Established in 1993, the Oregon Indigent Disposition Program provides licensed funeral establishments an opportunity to seek reimbursement from the Board for the costs (not to exceed $500 per deceased individual) that they incur while taking care of the final disposition of unclaimed indigent bodies. Prior to the 1993 legislation, the responsibility for paying for indigent disposition fell solely to the county. HB 3242 (2015) transferred the management of the Indigent Disposition Program from the Oregon Health Authority Public Health Division to OMCB. In Fiscal Year 2020, IDP reimbursement claims exceeded death filing fee revenues causing the IDP Fund to operate at a deficit. According to the Board, the deficit in 2020 combined with the projected annual increase of reimbursement claims have created the need for the death filing fee increase. HB 2120 (2021) increased the death report filing fee from $20 to $30 for each report. The measure is intended to stabilize the Indigent Disposition Program (IDP) Fund. The last time this fee was raised was in 2009. The fee increase is anticipated to raise $728,873 in Other Fund revenues for the 2021-23 biennium.

Budget Environment

The Board is required by statute to perform physical inspections every biennium of licensed death care facilities in the state. These inspections ensure death care providers are held accountable for protecting public health, while records inspections ensure providers are held accountable for training apprentices, documenting care performed, and maintaining contracts for pre-purchased services. Due in part to a ten-month vacancy in the inspector position, inspections of licensed death care facilities did not occur for over a year, from September 2018 to January 2020. Before there was a vacancy in the inspector role, the Board raised concerns whether a single inspector was sufficient to ensure inspections of facilities across the state. Beginning in the 2019-21 biennium, a second inspector position was added to increase capacity for inspections. After the first inspector was hired, the Board began updating its various facility inspection checklists and procedures to ensure they encompassed all compliance requirements. Inspection checklist updates were finalized in January and February 2020 and inspections of facilities resumed. However, the Board was only able to conduct 73 inspections before March 2020, when the COVID-19 pandemic affected the operation of facilities and inspectors' ability to travel.

As of March 2020, 94% of facilities in Oregon require inspection. In addition, the Secretary of State's December 2020 audit found that 70% of the inspected facilities had a deficiency of some kind identified in their most recent inspection. With the lapse in inspections, it is likely these deficiencies have gone unaddressed. The Secretary of State's audit also found that the Board has not established a mechanism to track the activities of the Indigent Disposition Program which could result in revenues being used to supplement operations, which would be out of compliance with statute. In early 2020, OMCB, in coordination with the Department of Administrative Services (DAS) Shared Financial Services (SFS), implemented a unique filing code and tracking system to accurately differentiate IDP funds from the agency's general operating account to ensure that the IDP funds are properly allocated and used in accordance with state law. Furthermore, in an effort to ensure timely and accurate reimbursement payments from the IDP Fund, OMCB staff has worked with DAS SFS to create a process that works collaboratively with the payment system and also provides an easily accessible claim tracking system. Uniform budgetary reports that detail allocation will be reviewed monthly by staff and quarterly by the Board's Secretary/Treasurer.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $2,832,630 represents a 17.76% increase from the 2019-21 legislatively approved budget. The budget includes an increase of $150,000 in Other Funds expenditure limitation for the Indigent Disposition Program and an increase of $61,760 Other Funds to allow inspectors to travel to complete facilities inspections. During the 2019-21 biennium, OMCB added another inspector but did not factor in travel expenses.

Legislatively Approved Budget Update

The agency's Legislatively Approved Budget includes employee compensation plan adjustments totaling $82,664 Other Funds, which was included in HB 5202 (2022), the omnibus budget bill for the 2022 legislative session.

Board of Naturopathic Medicine

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	1,207,655	1,134,984	1,060,590	1,079,025
Total Funds	**$1,207,655**	**$1,134,984**	**$1,060,590**	**$1,079,025**
Positions	4	3	3	3
FTE	4.00	3.00	3.00	3.00

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 Board is funded solely by Other Funds revenue primarily from license, certification, and examination fees. The Board's last fee increase was in 2011. The Board operates on an annual licensure renewal cycle with the majority of active licenses renewed in November and December of a calendar year. For cash flow purposes, the Board requires an ending balance equivalent to approximately six months of operating expenses due to the license renewal cycle. While the active license base has seen steady increases, it is not enough to cover inflationary costs over the next biennium. The Board's 2021-23 legislatively adopted budget ratifies the increase of licensing fees which is anticipated to generate $120,000 Other Funds to offset increasing administrative costs.

Budget Environment

The number of licensees for this board has more than 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 2021-23. The number of complaints has also increased, resulting in approximately 50 investigations per year.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $1,060,590 represents a 12% decrease from the 2019-21 legislatively approved budget due to a decrease in personnel. The recommended budget is projected to leave the board with an ending balance of $324,778 Other Funds, an equivalent of 7.3 months of operating funds.

Legislatively Approved Budget Update

The agency's 2021-23 legislatively approved budget includes funding for employee compensation plan and statewide adjustments totaling $18,435 Other Funds.

Occupational Therapy Licensing Board

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	639,452	767,275	697,289	707,899
Total Funds	**$639,452**	**$767,275**	**$697,289**	**$707,899**
Positions	2	2	2	2
FTE	1.75	1.75	1.65	1.65

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 Board is funded solely by Other Funds received from license application and reinstatement of licensure fees, renewal fees, limited permit fees, civil penalties, the sale of licensee lists, and interest. The Board absorbs the costs of a mandatory $4 per license renewal fee for workforce data collection paid through a "revenue transfer" to the Oregon Health Authority. The 2021-23 legislatively adopted budget authorizes the Board to increase application and renewal fees which is expected to generate $131,950 Other Funds to offset increasing administrative costs. The Board's projected ending cash balance for the 2021-23 biennium is anticipated to be $289,954, equaling approximately 9.9 months of operating costs.

Budget Environment

The Board has witnessed peaks and valleys over the past 10 years with an increase in total licensure by 40%, peaking at over 3,000 practitioners early in 2020. However, starting in April 2020 renewals dropped dramatically by 22% to about 2,400 licensees, due in part to the outbreak of COVID-19 causing some therapists to retire earlier than originally planned. As the lingering effects of COVID-19 continue, it is unknown how the pandemic will impact initial applicants and the renewal of licenses. In the last two years, 80% of new licenses were from out of state, and due to COVID-19, the Board anticipates fewer licensees will want to travel indicating there will be fewer new applications and less overall growth. However, the practice of occupational therapy in Oregon continues to grow, judging from the increased demand at higher educational schools of occupational therapy in Oregon, including the Occupational Therapy Assistant School at Linn-Benton Community College, and the addition of a doctorate program at the Pacific University School of Occupational Therapy. Additionally, according to the Oregon Healthcare Workforce Needs Assessment, employment growth for occupational therapists is approximately 20%, making it one of the fastest growing health care professions. As the number of licenses issued continues to increase, additional resources will be required to ensure applications, renewals, and background checks are completed on a timely basis. The Board also anticipates increases in investigations as licensing numbers continue to increase.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $697,289 represents a 9% increase from the 2019-21 legislatively approved budget. The budget includes a reduction of Services and Supplies by ($25,000) and Personal Services expenditures by ($29,377) including a reduction of (0.10) FTE to increase administrative savings for the Board's ending balance.

Legislatively Approved Budget Update

The agency's 2021-23 legislatively approved budget includes employee salary and other statewide compensation plan adjustments totaling $10,610 Other Funds.

Board of Medical Imaging

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	1,211,640	1,407,326	1,206,467	1,435,584
Total Funds	**$1,211,640**	**$1,407,326**	**$1,206,467**	**$1,435,584**
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.75

Overview

The mission of the Oregon Board of Medical Imaging (OBMI) is to promote, preserve, and protect the public health, safety, and welfare of Oregonians undergoing medical imaging studies performed by licensees for the purpose of medical diagnosis and therapy. The twelve-member Board, appointed by the Governor, is composed of four licensed physicians who represent different medical specialties (at least one radiologist and at least 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, radiology therapists, and limited x-ray machine operators. The Board licenses nuclear medicine technologists, sonographers, MRI technologists, diagnostic or therapeutic technologists, and diagnostic technicians; administers limited permit examinations for radiologic technicians to determine initial competence to practice; approves continuing education offerings to assure continuing competence; and defines and enforces the scope of practice for all licensees.

Revenue Sources and Relationships

The Board is funded by Other Funds primarily from revenues for limited scope examinations, as well as initial licensing and renewal application fees charged to temporary and permanent medical imaging technologists from the following modalities: MRI, nuclear medicine, radiation therapy, radiography, sonography, and limited X-ray machine operators. Minor additional revenue sources include late fees, civil penalty fees, and interest. Initial license and license renewal fees account for over 90% of OBMI's revenue. A license or permit expires biennially on the first day of the birth month of the licensee. While the active license base has seen steady increases, it is not enough to cover inflationary costs over the next biennium. The 2021-23 legislatively adopted budget ratifies increases in licensure fees to provide sufficient funds to maintain a three to six-month operating balance. OBMI has not had a fee increase in over 10 years and was initially on track to raise fees early in the 2019-21 biennium. However, due to a transition in agency directors, the administratively approved fee increase was delayed until January 1, 2021. The increased fee schedule is expected to generate $581,760 Other Funds.

Budget Environment

OBMI transitioned to a new agency director in the 2019-21 biennium and has undergone a thorough review of steps to improve agency regulations and practices. Process improvements include: amended issuance of late renewal fees to improve licensee compliance and avoidance of penalties; implemented policies to enable maintenance of licensure for long-time radiographers; revising regulations for limited x-ray schools to ensure compliance with national accreditation entities; and enacting administrative rules to clarify processes for students to obtain temporary licensure. Medical imaging is a profession that is growing in the number of practicing professionals and in areas of specialization. Medical imaging technology is in a state of continuous modernization. Over the past eight years, the total number of permanent licenses has increased by over 50% largely due to 2009 legislation that added a state licensure requirement for sonography, MRI, and nuclear medicine. Disciplinary and compliance cases have increased proportionately with the increase in licensure. These trends will result in increases to the agency's licensing and regulatory administrative costs.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $1,206,467 represents a 0.4% decrease from the 2019-21 legislatively approved budget level. The budget reduces expenditures by ($297,137) Other Funds, including ($54,789) and (0.25) FTE in Personal Services and ($242,384) in Services and Supplies to strengthen the Board's ending balance.

The budget is projected to leave the Board with an ending balance of $485,482 Other Funds, an equivalent of 9.6 months of operating funds.

Legislatively Approved Budget Update
OBMI's Other Funds expenditure limitation was increased by $202,000, which includes an increase of one existing position by 0.25 FTE, to address a rise in investigations related to enforcement issues and an increase in stipends for board members resulting from HB 2992 (2021). The agency's 2021-23 legislatively approved budget also includes employee salary and statewide compensation plan adjustments totaling $27,117 Other Funds.

Board of Examiners for Speech-Language Pathology and Audiology

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	986,701	1,192,111	1,045,357	1,071,713
Total Funds	**$986,701**	**$1,192,111**	**$1,045,357**	**$1,071,713**
Positions	3	3	3	3
FTE	3.00	3.00	3.00	3.00

Overview
The mission of the Board of Examiners for Speech-Language Pathology and Audiology (BSPA) is to protect the public by licensing and regulating the performance of Speech-Language Pathologists (SLP), Speech-Language Pathology Assistants (SLPA), and Audiologists (AUD). The Board regulates the professional practice of speech-language pathology and audiology through ongoing monitoring of licensees, including investigating professional competence and conduct. The seven-member Board, appointed by the Governor, consists of two audiologists, two licensed SLPs, one medical doctor who holds Board certification from the American Board of Otolaryngology, and two public members.

Revenue Sources and Relationships
The Board is supported solely by Other Funds. Licensing fees are about 90% of revenue, with the remainder provided through delinquent fees, civil penalties, interest income, and sales of mailing lists. Licensing fees are paid on a biennial basis by active SLPs, SLPAs and AUDs, individuals dually licensed in both SLP and AUD pay only a single fee. Delinquent fees are levied on licensees who are late in renewing, re-activating after a lapse, and for other reasons specified in Board rules. All regular licenses must be renewed by December 31 of odd numbered years to be considered timely. This creates a very uneven revenue cycle with 90% of BSPA's revenue historically realized in November/December/January of each new biennia. The Board has been able to maintain the current fee structure since 2013. The 2021-23 adopted budget includes fee increases that are expected to generate $149,821 Other Funds.

Budget Environment
The total number of licensees as of July 2018 was 2,771, and has increased to 3,058 as of July 2020, representing a 10% increase. The trend of licensees increasing by approximately 10% each biennium has held true over the past 15 years and is expected to continue. Disciplinary and compliance cases have increased on par with the increases in licensure. From 2004 through 2008, the Board investigated approximately 20 cases per year. In 2009, there was a jump to 41 cases and in 2011, the Board logged 100 case investigations. The Board opened 86 case investigations in 2017, 56 in 2018, and 74 in 2019. Due to the COVID-19 pandemic and the subsequent closure of schools and clinics, the Board anticipated a decrease in case openings, however, that has not proven correct for 2020. 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 2021-23 legislatively adopted budget of $1,045,357 represents a 5.9% increase from the 2019-21 legislatively approved budget. The budget includes a reduction of $117,997 in Services and Supplies to ensure the Board has an adequate ending balance. The legislatively adopted budget is projected to leave the board with an ending balance of $200,160 Other Funds, an equivalent of 4.6 months of operating funds.

Legislatively Approved Budget Update

The agency's 2021-23 legislatively approved budget includes employee salary and statewide compensation plan adjustments totaling $26,356 Other Funds.

Veterinary Medical Examining Board

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	1,260,064	1,372,163	1,337,579	1,379,042
Total Funds	**$1,260,064**	**$1,372,163**	**$1,337,579**	**$1,379,042**
Positions	4	4	4	4
FTE	3.75	3.75	3.75	3.75

Overview

The Oregon Veterinary Medical Examining Board (OVMEB) protects animal health and welfare, public 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 doctors of veterinary medicine (DVM), certified veterinary technicians (CVT), and certified euthanasia technicians (CET) as well as euthanasia shelters; 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

Applications, examinations, and license fees make up approximately 95% of the Board's revenue, with the remainder derived from the sale of license lists and civil penalties. There are no changes in revenue sources or fees for the 2021-23 biennium. Through conservative spending trends and a growing licensing base, the Board acquired an ending fund balance more than sufficient to cover operational expenses. The Board is projected to have over 21 months of ending fund balance at the end of the 2021-23 biennium. The Board should potentially look at a fee decrease in the upcoming biennium.

Budget Environment

The Board's executive director of 22 years retired in December 2020. The Board appointed an interim executive director to assist the agency through this transitional period. The Board adopted rules that essentially mirror minimum standards required by the Oregon Board of Pharmacy's Drug Practitioner Dispensing Outlet (DPDO) program. Facilities have completed and reported self-inspections for compliance with the expanded drug requirements, physical inspections will resume when COVID-19 safety restrictions are lifted. The Board has been proactive in communications with its licensees regarding COVID-19 Executive Orders, Oregon Health Authority guidelines, and resources around vaccinations. The Board waived 2021 renewal fees for CVTs, CETs, and DVMs, in addition to postponing the renewal deadline from December 31, 202 to January 31, 2021.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $1,337,579 represents a 6.1% increase from the 2019-21 legislatively approved budget level. The budget is the current service level budget with no additional policy option packages.

Legislatively Approved Budget Update

The agency's 2021-23 legislatively approved budget includes employee salary and statewide compensation plan adjustments totaling $41,463 Other Funds.

BUREAU OF LABOR AND INDUSTRIES

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	14,585,247	15,725,680	19,980,422	43,003,037
Lottery Funds	260,230	--	261,416	270,809
Other Funds	14,812,241	14,679,546	14,837,959	16,315,452
Other Funds (NL)	900,000	938,700	938,700	938,700
Federal Funds	1,400,145	1,502,094	1,827,980	1,903,363
Total Funds	**$31,957,863**	**$32,846,020**	**$37,846,477**	**$62,431,361**
Positions	111	108	130	150
FTE	109.08	106.50	127.50	138.92

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 52.8%, the General Fund comprises over 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 $5,265,083 in the 2021-23 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 $938,700 during the 2021-23 biennium. The Wage Security Fund is also used for administrative expenses, which are budgeted as Other Funds. Of the $14.8 million in Other Funds expenditure limitation for the 2021-23 legislatively approved budget, $4 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 $3.5 million for 2021-23. Fees for publications, seminars, and presentations on employment law generate $1.4 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 $1.6 million. And the Wage and Hour Division's licensing of farm, forest, and construction labor contractors and janitorial firms is expected to yield $352,600 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 $1,197,200 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

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	2018	2019	2020
Wage and Hour - Inquiries	35,000	32,539	35,178
Wage and Hour - Claims Filed	1,138	1,397	1,838
Wage and Hour - Investigations	1,104	1,220	1,716
Civil Rights - Inquiries	47,000	48,690	44,359
Civil Rights - Cases Filed	1,900	1,918	1,699
Apprenticeship - New Registration	4,339	4,267	2,862
Tech. Assistance for Employers - Inquiries	23,725	23,962	21,611
Tech. Assistance for Employers - Trainings	177	214	123
Administrative Prosecution - Contested Cases	130	118	126

BOLI's 2020 Annual Performance Progress report indicates decreases in overall rates of customer satisfaction, timely processing of Civil Rights claims and timely processing of Wage and Hour complaints and claims (although in the case of the Wage and Hour division, the agency was still meeting its target of resolving 80% of complaints and 85% of claims in a timely fashion). A steep drop in the completion of prevailing wage rate claims within 90 days was also reported. In contrast, the agency exceeded previous years' performance for the apprenticeship and training division. BOLI is attributing the majority of its performance struggles to increases in volume in requests for information from the Technical Assistance for Employers program, and a combination of vacancies and increases in complaints and claims in the Civil Rights and Wage and Hour divisions.

Due to the volume of new legislation and the effects of the pandemic, the Technical Assistance for Employers program has experienced a "spike and flow" of employer inquiries. As new policies or laws became effective, the unit saw a spike in employers seeking guidance on everything from pay equity to COVID-related protected leave, which would dissipate after several weeks. This pattern reportedly remained fairly constant over the course of the 2019-21 biennium. Because of the inability to gather in 2019 and 2020, revenues for the division were initially down, but the agency was able to utilize federal Coronavirus Relief Funds, largely because so much of the information being disseminated was related to workplace safety due to COVID-19. An organized pivot has been made to digital presentations. For the 2021-23 biennium, sales revenue projections that help to support the program are estimated at $1.6 million. The transition from more in-person seminars and conferences to web-based learning opportunities has the potential to result in broader participation since employers do not have to travel, but it will likely take the whole of the 21-23 biennium to confidently assert the existence of a trend.

The agency received Veterans Service Funding (Lottery Funds) on a one-time basis in the 2019-21 biennium to fund a position to promote apprenticeship and training opportunities amongst members of the Oregon National Guard returning from deployment. The position was not filled until April of 2020, and due to the pandemic, was unable to participate in various reintegration events or engage with units as anticipated, but has made inroads in establishing various public and private partnerships through outreach to veterans' groups and service organizations. This position has been extended through 2021-23 with the same one-time basis Veterans Service Funding (Lottery Funds) support.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget of $37.8 million represents a 18.4% increase from the 2019-21 legislatively approved budget and includes 130 positions (127.50 FTE). Significant investments include:

- $556,656 General Fund and two permanent full-time positions (2.00 FTE) to reestablish pre-COVID service levels to the Technical Assistance for Employers program.
- $214,952 General Fund and one full-time position (1.00 FTE) to service the growing case volume in the Administrative Prosecution Unit.
- $1.7 million ($1.4 General Fund and $346,169 Federal Funds) and nine permanent full-time positions (9.00 FTE) to increase civil rights enforcement capacity in the Civil Rights Division.
- $193,551 Other Funds and one permanent full-time position (1.00 FTE) to provide support to Spanish speakers in the investigation of wage claims and complaints for the Wage and Hour Division's Eugene Office.
- $484,107 ($222,691 General Funds and $261,416 Lottery Funds) and two permanent full-time positions (2.00 FTE) to continue the Eastern Oregon based apprenticeship and Veteran's Outreach positions.
- $614,885 ($222,114 General Fund and $392,771 Other Funds) and one permanent full-time position (1.00 FTE) to establish a Diversity, Equity, and Inclusion support position for the Apprenticeship and Training Division. A limited duration position (1.00 FTE) was also established to fulfill obligations related to an ongoing collaboration with the Higher Education Coordinating Commission and the Oregon Employment Department.
- $2.3 million General Fund and eight permanent full-time positions (8.00 FTE) for BOLI's role in the Fair Housing Enforcement Statewide Investment collaborative partnership between Fair Housing Council of Oregon, Bureau of Labor and Industries, the Department of Justice, and other housing partners.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for BOLI totals $62.4 million. The budget increased by $24.6 million (or 65%) from the 2021-23 legislatively adopted budget.

A majority of the increase is due to a major General Fund investment in workforce development described in SB 1545 (2022). This investment is a one-time $18.9 million General Fund appropriation and one-time Other Funds expenditure limitation increase of $1.1 million, which included the addition of nine limited duration positions (5.67 FTE). Additional General Fund investments include a one-time appropriation of $2 million for the cost of relocating the Bureau of Labor and Industries headquarters in Portland; an appropriation of $684,500 and two permanent full-time positions (1.00 FTE) to address age discrimination in the workplace; an appropriation of $509,117 and four permanent full-time positions (2.00 FTE) to enforce wage and hour laws required in HB 4002 (2022); and an appropriation of $173,164 and two permanent full-time positions (1.00 FTE) to address Wage and Hour Division's increased wage claim workload. The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Commissioner's Office and Program Support Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	4,653,053	4,898,026	6,066,729	8,326,789
Other Funds	3745,485	4,242,210	3,678,796	3,879,090
Federal Funds	283,523	321,006	321,006	328,465
Total Funds	**$8,682,061**	**$9,461,242**	**$10,066,531**	**$12,534,344**
Positions	28	28	31	32
FTE	27.38	28.00	31.00	31.50

Program Description

The Commissioner's Office and Program Support Services Unit provides overall policy direction and management for the Bureau. The program units are:

- Commissioner's Office/Legal Policy – The Commissioner's office provides strategic planning, legal policy, public information, and intergovernmental relations for the agency. 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 that was added in 2019.
- Business Services – Six 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 three administrative prosecutors (Compliance Specialist 3) and a case coordinator (for a total of 5.00 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.

Revenue Sources and Relationships

The Commissioner's Office/Support Services Unit receives 59.3% of its support from the General Fund. Other Funds revenues include $1.4 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.

Legislatively Adopted Budget

The Commissioner's Office and Program Support Services Unit 2021-23 legislatively adopted budget of $10 million represents a 15% increase from the 2019-21 legislatively approved budget. Increases are from the following ongoing General Fund investments:

- One permanent human resources analyst position (1.00 FTE) that was added in the April 2020 E-Board to support the agency was continued for 2021-23.
- Two positions (2.00 FTE) were added back to the Technical Assistance for Employers program after they were laid off in the 2019-21 biennium due to a revenue shortfall caused by the COVID-19 shutdown.
- One permanent administrative prosecutor position (1.00 FTE) was added to improve customer service in the Administrative Prosecution Unit.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Commissioner's Office and Program Support Services is $12.5 million total funds and 32 positions (31.50 FTE), which is a $2.5 million (or 24.5%) increase from the 2021-23 legislatively adopted budget. The majority of the increase is due to a one-time General Fund appropriation of $2,006,730 for the cost of relocating the Bureau of Labor and Industries headquarters in Portland. The move is due to the significant growth in permanent staff the agency has experienced. The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Civil Rights Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,917,253	4,307,952	7,724,310	8,713,132
Other Funds	1,637,038	1,771,751	1,758,511	1,820,522
Federal Funds	1,051,771	1,181,088	1,506,974	1,574,898
Total Funds	**$6,606,062**	**$7,260,791**	**$10,989,795**	**$12,108,552**
Positions	31	31	47	49
FTE	30.50	30.50	46.50	47.50

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 (both 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 $512,000 from OR-OSHA and nearly $1.1 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. The EEOC provides just over $1.2 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 $2,900; 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 2020, 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 62.5% of complaints, housing discrimination accounted for 6%, sex discrimination (including gender identify and sex harassment) accounted for 6% of volume, and issues of race comprised the remaining 25%. The 44,359 inquiries in 2020 resulted in approximately 1,699 formal complaints. Approximately 70% of cases closed in 2020 were after a full investigation. 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 most significant harm, and to expedite the closure of cases unlikely to result in a finding of unlawful discrimination. Complaints are categorized as follows:

- “A” type 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” type 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” type 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.

Legislatively Adopted Budget

The Civil Rights Division 2021-23 legislatively adopted budget of $10.9 million represents a 66.4% increase from the 2019-21 legislatively approved budget. The budget increase is partially from a General Fund appropriation of $2,310,459 approved for BOLI’s role in the Fair Housing Enforcement Statewide Investment collaborative partnership between Fair Housing Council of Oregon, Bureau of Labor and Industries, and Department of Justice and other housing partners. This funding supports a Program Manager position (1.00 FTE); six Civil Rights Investigators (6.00 FTE) to support housing discrimination investigation in four priority regions; and one Training and Development Specialist (1.00 FTE) to provide statewide fair housing education and outreach.

Also contributing to the budget increase is an investment in increasing the division’s civil rights enforcement capacity by adding 9 positions (9.00 FTE). A General Fund appropriation increase of $1,353,174 goes to pay for 7 positions (7.00 FTE) and a Federal Funds expenditure limitation increase, funded from federal HUD fair Housing reimbursements, will go to pay for 2 positions (2.00 FTE).

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Civil Rights Division is $12.1 million total funds and 49 positions (47.50 FTE), which is a $1.1 million (or 10.2%) increase from the 2021-23 legislatively adopted budget. The majority of the increase is due to a General Fund appropriation of $684,500 to address age discrimination in the workplace. The funding, authorized by HB 5202 (2022), goes to hire two permanent full-time positions (1.00 FTE) and to provide contracted communications and research support. The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Wage and Hour Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,009,278	3,245,441	2,960,908	3,717,050
Other Funds	5,881,413	6,393,126	6,878,127	6,968,023
Other Funds (NL)	900,000	938,700	938,700	938,700
Total Funds	**$9,790,691**	**$10,577,267**	**$10,777,735**	**$11,623,773**
Positions	35	33	35	43
FTE	33.50	32.50	33.50	37.75

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 $3.5 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $600,000 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 $6.5 million for the Fund in the 2021-23 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 $938,700 for actual wage claims as Other Funds Nonlimited. Approximately $2 million of Wage Security Fund revenues are spent on administration as Other Funds, including approximately $746,296 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 35,178 inquiries per year and conducting 1,716 investigations related to reported wage and hour irregularities in 2020. Approximately 133 claims for final unpaid wages against the Wage Security Fund were paid out during the same period. Sixty-eight cases in 2020 were determined to be subject to prevailing wage laws. The Division issued a combined total of 810 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 Wage and Hour Division 2021-23 legislatively adopted budget of $10.8 million represents a 10% increase from the 2019-21 legislatively approved budget. The budget increase is due in part to a $138,506 Other Funds investment in efficiency by reclassifying positions to receive and investigate both Civil Rights complaints along with Wage and Hour complaints instead of just one or the other. Another investment of $193,551 Other Funds in the division's Eugene office adding one full-time permanent bilingual Compliance Specialist position (1.00 FTE) to investigate WHD wage claims and complaints.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Wage and Hour Division is $11.6 million total funds and 43 positions (37.75 FTE), which is a $846,038, or 7.9%, increase from the 2021-23 legislatively adopted budget.

The majority of this increase is due to two General Fund appropriations, authorized by HB 5202 in the 2022 session. A $509,117 appropriation and four permanent full-time positions (2.00 FTE) was approved to enforce wage and hour laws required in HB 4002 (2022). The funding and positions will expand BOLI's Protective Investigation and Enforcement unit, within the Wage and Hour Division to meet its education and enforcement responsibilities in the agriculture industry. In addition, $173,164 was approved for the Wage and Hour Division's increased wage claim workload. The funding goes to support two permanent full-time bilingual positions (1.00 FTE).

Three permanent full-time positions (1.50 FTE) and one reclassification was also approved to add enforcement and education capacity to the Wage and Hour Divisions' Prevailing Wage and Administrative Prosecution units. This is net-zero to Other Funds limitation due to savings in the Prevailing Wage fee from changes in the way prevailing wage rates are set brought on by the passage of SB 493 (2021). The Personal Services cost increase of $269,493 was offset by a Services and Supplies decrease in Professional Services of a like amount.

The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Apprenticeship and Training Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,314,594	3,274,261	3,228,475	22,246,066
Lottery Funds	250,000	--	261,416	270,809
Other Funds	2,689,360	2,272,459	2,522,525	3,647,817
Total Funds	**$6,253,954**	**$5,546,720**	**$6,012,416**	**$26,164,692**
Positions	19	16	17	26
FTE	18.42	15.50	16.50	22.17

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 2021-23 biennium but is expected to be phased out in future biennia.

Budget Environment

According to 2020 data, 5,261 Oregon employers utilized registered apprenticeships in 2020. 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 exceeded 10,000 since June 2019 and reached a high of 10,591 in October 2019 before declining somewhat to 10,292 by the end of 2020. Apprenticeship completions are dependent on jobs being available to provide the needed hours of on-the-job training. A total of 1,580 apprenticeship completions were recorded in 2020, representing 243 fewer than the prior year.

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 2021-23 legislatively adopted budget of $6.1 million is $241,538, or 3.9%, below the 2019-21 legislatively approved budget and includes 17 positions (16.50 FTE). The decrease from the legislatively approved budget is largely due to the elimination of three permanent positions (3.00 FTE) from the division as part of the 2019-21 biennium statewide reduction measures directed by SB 5723 during the 2020 second special session as well as the phasing out of $478,947 in one-time funding. Budget additions included:

- $261,416 Lottery Fund to continue the Veteran's Outreach limited duration position (1.00 FTE).
- $222,691 General Fund to continue and make permanent the Eastern Oregon based Apprenticeship Representative position (1.00 FTE) to improve customer service.
- $222,114 to establish a full-time Diversity, Equity, and Inclusion specialist (1.00 FTE) to work proactively with apprenticeship training agents to develop strategies and supports to ensure greater participation and success for women and minorities in apprenticeship.
- $392,771 Other Funds for a limited duration Compliance Specialist 2 (1.00 FTE) to fulfill obligations related to an ongoing collaboration with the Higher Education Coordinating Commission and the Oregon Employment Department.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Apprenticeship and Training Division is $26.2 million total funds and 26 positions (22.17 FTE), which is a $20.2 million (or 335.2%) increase from the 2021-23 legislatively adopted budget.

This increase is part of the workforce development investment described in SB 1545 (2022). The Legislature established a one-time $18,900,000 General Fund appropriation and a one-time Other Funds expenditure limitation increase of $1,100,000 to support this work. This large budget increase funds a new grant program for registered apprenticeship and pre-apprenticeship training programs in specific industry sectors. The measure directs the use of grant moneys for the development of apprenticeship and pre-apprenticeship programs prioritizing individuals from priority populations and limits the use of grant funds for specific purposes, including convening employers in health care and manufacturing; providing recruitment and outreach; providing tuition and fee assistance; providing wraparound supports and services; and providing paid work experiences. Also approved were nine limited duration positions (5.67 FTE) to establish and administer the grant program.

The remaining budget increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

MEDICAL BOARD

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	14,079,904	15,112,386	16,951,813	17,346,294
Total Funds	**$14,079,904**	**$15,112,386**	**$16,951,813**	**$17,346,295**
Positions	41	41	42	42
FTE	41.00	41.00	42.00	42.00

Overview
The Oregon Medical Board (OMB) is a fourteen-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 three 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 97% of its revenue from licensure and registration fees. Other miscellaneous revenue includes the sale of lists and directories, and fines or forfeitures imposed as disciplinary measures. Included with the licensure and registration fee revenue are amounts statutorily required to be collected by OMB that are subsequently passed through to other entities. These are $10 for each in-state physician licensed by the Board (with the revenue transferred to the Oregon Health and Sciences University to maintain a circulating library for the use of medical professionals and students), $25 per year for each person licensed by the Board who is authorized to prescribe or dispense controlled substances (with the revenue transferred to the Oregon Health Authority to support a prescription monitoring program), and $2 imposed on each license renewal issued by the Board that supports the actual cost of obtaining and reporting information on demographics and employment of certain health care licensees by the Oregon Health Policy Board. Revenue in 2021-23 is projected to be $14 million net of pass-through revenue transfers, which is a 4.2% increase from the revenue assumed in the 2019-21 legislatively approved budget. The Board's 2021-23 ending fund balance is projected to be $5,731,155 which is about eight months of operating reserves.

Budget Environment
The Board's primary task is to protect the public and to promote public safety. The Board's primary tool for ensuring public safety is having the ability to investigate complaints. The Board had adopted a trauma-informed philosophy for its investigations and has undergone training to further its understanding of the diverse backgrounds and experiences of both complainants and licensees. The Board has prioritized removing barriers to accessing the Board's investigative services through the addition of an investigator to their staff. As Oregon's population has increased, so has the number of healthcare professionals licensed by the Board. In 2019, the investigations unit received 1,652 phone call inquiries, 859 emails, and 842 written complaints.

The Board conducted a review of their IT business suite and concluded that their current vendor, GLSuite software, is unable to provide adequate updates to the software or provide support as required by the Board. OMB does not have access to all of the source code, severely limiting OMB's ability to improve and secure the system. The system captures all data relevant to an applicant or licensee, including varying levels of sensitive data included on each record or potential investigation. The Board requested and received funding to contract with a new vendor to replace and modernize their core business suite software. They are in the process of working with DAS Enterprise Information Services to ensure modernization objectives are met. The total budget limitation increase for this package is $1,603,000 for 2021-23. However, the total implementation, plus five years of operating costs, is estimated at $4,499,563.

The Board worked with physicians and PAs in changing their practices to adhere to the Governor's Executive Orders, during the COVID-19 pandemic. The Board has taken steps to assist their licensee base to understand and interpret the Oregon Health Authority's guidance for resumption of non-emergent and elective procedures. In the first special session of 2020, the Legislature passed HB 4212 to increase the health care workforce and provide flexibility to certain requirements for PAs, during the declared state of emergency. The Board also took emergency action to increase the physician and PA workforce in Oregon by adopting new temporary rules for out-of-state practitioners.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Oregon Medical Board totals $16,951,813 Other Funds and includes 42 positions (42.00 FTE). The budget is a 20.4% increase from the 2019-21 legislatively approved budget and is projected to leave an eight-month operating reserve in the ending fund balance. The budget increase is due to investments in modernization of the Board's core business software, the addition of one Investigator position (1.00 FTE), and implementation of a Security Information Event Management Software solution.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Oregon Medical Board totals $17,346,295 in Other Funds expenditure limitation. The approved budget includes an expenditure limitation increase of $394,482 Other Funds, for salary and other statewide compensation adjustments through the end of the 2021-23 biennium. No additional changes to Other Funds, positions, or FTE were made.

MENTAL HEALTH REGULATORY AGENCY

Analyst: Graham

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	300,000	300,000
Other Funds	4,370,784	4,650,352	5,052,276	5,186,427
Total Funds	**$4,370,784**	**$4,650,352**	**$5,352,276**	**$5,486,427**
Positions	12	12	14	14
FTE	12.00	12.00	14.00	14.00

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 Mental Health Regulatory Agency is responsible for the administration, regulatory oversight, and centralized services of two licensing 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 of the 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 operational expenses of the two boards adequately reflect the changes to the mental health professions licensed and regulated by the agency.

Board of Licensed Professional Counselors and Therapists

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	300,000	150,000
Other Funds	2,834,558	2,822,490	3,225,938	3,319,100
Total Funds	**$2,834,558**	**$2,822,490**	**$3,525,938**	**$3,469,100**
Positions	12	12	14	14
FTE	7.65	7.65	9.60	9.60

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 member 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 9% growth rate in licensees and interns during 2021-23, the Board expects to issue 1,877 initial licensees, process 11,143 license renewals and 2,391 internship renewals, and receive 3,254 licensure applications. At the end of the 2021-23 biennium, the Board is expected to have an ending balance of $1,304,687 Other Funds, which represents about 8.8 months of operating expenses.

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 9.1% per year; the number of new registered interns has increased by an average of 9.3% per year. The Board expects this upward trend in licensing to continue for four main reasons: (1) increasing public awareness of mental health issues and increasing acceptance of mental health treatment have increased the demand for mental health services; (2) retiring licensees are choosing to keep their licenses in case they want to return to practice, especially since the Board now has an inactive status for licensees; (3) the Affordable Care Act requires most individual and small group health insurance plans to cover mental health services; and while the licensure program is voluntary, insurance companies generally do not reimburse unlicensed practitioners for their services, though some unlicensed practitioners qualify for Medicaid reimbursement; and (4) advances in telehealth have made it easier for patients in rural areas to access care.

As the population continues to seek mental health care in response to the COVID-19 pandemic and natural disasters, and as health insurance carriers provide coverage and Medicaid reimbursement, more counselors and therapists are expected to seek licensure. With continued growth in licensees, the Board's investigative and legal costs will increase due to an increase in complaints and contested cases. Meanwhile, the number of investigations opened has remained largely consistent over the past five years, despite an unexpected decrease in 2020 likely due to the COVID-19 pandemic. To put it in context, the Board averaged 119 investigations per year over the past five years, going from 118 investigations in 2016 to 101 investigations in 2020. Although investigations decreased by an average of -2.6% over the last five years, the decrease is likely due to the spread of the COVID-19 pandemic. Consequently, excluding 2020, the Board's investigations increased by an average of 10.5% from 2016 to 2019.

Legislatively Adopted Budget

The legislatively adopted budget for the Board of Licensed Professional Counselors and Therapists is $3,525,938 total funds, which includes $3,225,938 Other Funds and $300,000 General Fund, and is a 24.3% increase above the 2019-21 legislatively approved budget. The legislatively adopted budget includes:

- $158,111 Other Funds to fund the Board Licensed Professional Counselors and Therapists' portion of a permanent Licensing Manager position (0.70 FTE) to direct and support the licensing activity operations for both boards, due to the continued growth of their licensee base. This position will manage the licensing program, supervise administrative personnel, and perform policy/legislative analysis and operational research and evaluation duties.
- $126,707 Other Funds to pay for the Board's portion of a limited duration Investigator position (0.70 FTE) to support agency compliance functions. This position will assist with the boards' growing investigation backlog by performing complaint investigations and investigation reporting and documentation.
- $76,600 Other Funds to pay for the Board's portion of the services and supplies needed to sufficiently fund the Attorney General fees for both boards. This increase in Attorney General fees will enable the boards to process and dispose of their increasing number of complaints and investigations, resulting in sanctions, contested case hearings or appeals, and other matters requiring legal advice.
- An adjustment to the cost allocation model for certain shared expenditures between both boards to distribute the cost of shared resources more equitably as reflected by the change in their respective licensee bases. The adjustment does not increase the Mental Health Regulatory Agency's expenditure limitation, but rather shifts a total of $142,707 Other Funds from the Board of Psychology to the Board of Licensed Professional Counselors and Therapists.

- $300,000 General Fund to cover the cost of engaging a third-party consultant to study the demographics of individuals licensed by both boards and to devise a plan to increase licensee diversity. A written report and plan are to be submitted to appropriate legislative policy committee(s) no later than December 31, 2022. The initial plan was for the Mental Health Regulatory Agency to evenly split the cost of this study between both the Board of Licensed Professional Counselors and Therapists and the Board of Psychology. However, due to accounting and budget system constraints, the entire $300,000 General Fund was budgeted to the Board of Licensed Professional Counselors and Therapists. The appropriation is expected to be split with the Board of Psychology through a technical adjustment in the 2022 legislative session.

Legislatively Approved Budget Update

The legislatively approved budget for the Board of Licensed Professional Counselors and Therapists is $3,469,100 total funds, which includes $3,319,100 Other Funds and $150,000 General Fund, and is a 1.6% decrease from the 2021-23 legislatively adopted budget. The legislatively approved budget includes a technical adjustment that decreases the General Fund appropriation to the Board of Licensed Professional Counselors and Therapists from $300,000 to $150,000 to evenly split the cost of the demographic study and plan to increase licensee diversity with the Board of Psychology. The budget also includes an increase in Other Funds expenditure limitation for changes to the state employee compensation plan and other technical adjustments for state agencies.

Board of Psychology

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	150,000
Other Funds	1,536,226	1,827,862	1,826,338	1,867,327
Total Funds	**$1,536,226**	**$1,827,862**	**$1,826,338**	**$2,017,327**
Positions	--	--	--	--
FTE	4.35	4.35	4.40	4.40

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 might be confusing to the public, because the Board's mission 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 3.7% growth rate in the licensee base during 2021-23, the Board expects to renew 2,315 licenses, receive 365 licensure applications, register 291 jurisprudence exam candidates, and issue 174 limited permits. At the end of the 2021-23 biennium, the Board is expected to have an ending balance of $918,361 Other Funds, which represents about 12 months of operating expenses.

Budget Environment

The debate over the desirability and feasibility of psychopharmacology prescription privileges for psychologists has caused uncertainty for the Board in recent years. In 2017, the Legislative Assembly passed HB 3355, which would have given prescription privileges to psychologists who underwent certain training and would have required the Board to form a committee to oversee and regulate the program. Ultimately, the measure was vetoed by the Governor, and although the Board is unaware of any plans to introduce similar legislation, it remains a possibility. The Board expects continued growth in licensees, and thus a corresponding increase in its licensing and enforcement activities, as well as increasing legal costs due to appeals of disciplinary actions and potential lawsuits. While there are some economies of scale, the Board's workload grows proportionately with the increase in licensee base.

Legislatively Adopted Budget

The legislatively adopted budget for the Board of Psychology is $1,826,338 Other Funds and is a 18.8% increase from the 2019-21 legislatively approved budget. The legislatively adopted budget includes:

- $68,902 Other Funds to fund the Board Licensed Professional Counselors and Therapists' portion of a permanent Licensing Manager position (0.30 FTE) to direct and support the licensing activity operations for both boards, due to the continued growth of their licensee base. This position will manage the licensing program, supervise administrative personnel, and perform policy/legislative analysis and operational research and evaluation duties.
- $55,444 Other Funds to pay for the Board's portion of a limited duration Investigator position (0.30 FTE) to support agency compliance functions. This position will assist with the boards' growing investigation backlog by performing complaint investigations and investigation reporting and documentation.
- $70,365 Other Funds to pay for the Board's portion of the services and supplies needed to sufficiently fund the Attorney General fees for both boards. This increase in Attorney General fees will enable the boards to process and dispose of their increasing number of complaints and investigations, resulting in sanctions, contested case hearings or appeals, and other matters requiring legal advice.
- An adjustment to the cost allocation model for certain shared expenditures between both boards to distribute the cost of shared resources more equitably as reflected by the change in their respective licensee bases. The adjustment does not increase the Mental Health Regulatory Agency's expenditure limitation, but rather shifts a total of $142,707 Other Funds from the Board of Psychology to the Board of Licensed Professional Counselors and Therapists.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Board of Psychology is $2,017,327 total funds, which includes $1,867,327 Other Funds and $150,000 General Fund, and is a 10.4% increase above the 2021-23 legislatively adopted budget. The legislatively approved budget includes a technical adjustment of $150,000 General Fund appropriation to the Board of Psychology to evenly split the cost of the demographic study and plan to increase licensee diversity with the Board of Licensed Professional Counselors and Therapists. The budget also includes an increase in Other Funds expenditure limitation for changes to the state employee compensation plan and other technical adjustments for state agencies.

BOARD OF NURSING

Analyst: Potter

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	20,326,025	21,022,293	20,961,185	21,955,686
Total Funds	**$20,326,025**	**$21,022,293**	**$20,961,185**	**$21,955,686**
Positions	54	54	54	54
FTE	53.90	53.90	53.90	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 Board also receives matching federal revenue through the Department of Human Services (DHS) for regulating the nursing assistants program in Oregon in compliance with the Federal Omnibus Reconciliation Act of 1987. For the 2021-23 biennium, the Board is expected to receive a net of $1.7 million in matching revenue from DHS. Nine dollars of each nursing license fee is collected for the Nursing Advancement Fund.

OSBN expects to have $28.2 million in available Other Funds revenue to support its legislatively adopted budget of $21 million. This includes a beginning balance of $8.8 million and a projected ending balance of $7.3 million which represents 8.3 months of operating reserves.

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. OSBN currently licenses approximately 72,000 nurses, and about 19,300 nursing assistants. The number of active nursing licenses has increased by almost 46% over the last 10 years. 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. To account for this, the 2019-21 legislatively adopted budget provided an increase in resources for licensing and investigations. In response to the COVID-19 pandemic, the Board approved measures to accelerate emergency authorizations for nurses licensed in other states to work in Oregon.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the OSBN totals $21 million Other Funds with 54 positions (53.90 FTE). The budget is a 3.1% increase from the 2019-21 legislatively approved budget. The budget increased the

Board's Other Funds expenditures by $100,000 to provide sufficient limitation to pay for e-government transaction fees effective January 1, 2021. This fee, charged by NIC Oregon, would otherwise be paid by licensees.

Legislatively Approved Budget Update

The legislatively approved budget for OSBN totals $22 million Other Funds which is an increase of $994,501 (or 4.7%) from the legislatively adopted budget. The increase was due to employee compensation plan adjustments and an Other Funds expenditure limitation increase provided in HB 4003 (2022). No changes to positions or FTE were made.

HB 4003 (2022) included a one-time Other Funds expenditure limitation increase of $500,000 for the Board of Nursing to support an Oregon non-profit organization that promotes the wellness of health professionals through education, coordinated regional counseling, telemedicine services and research. HB 4003 also directs the Board of Nursing to issue nurse internship licenses to qualified applicants, which can be administered within existing staff.

The Legislature also ratified a Board of Nursing fingerprinting fee increase from $52 to $58 in HB 5201 (2022). The Oregon State Police increased fingerprinting fees, which increased fees for licensees who must have a background check performed as part of the licensing process. This change is anticipated to increase revenue by $174,000 in the 2021-23 biennium.

BOARD OF PHARMACY

Analyst: Morse-Miller

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	9,018,452	9,515,163	9,463,698	9,691,342
Total Funds	**$9,018,452**	**$9,515,163**	**$9,463,698**	**$9,691,342**
Positions	22	22	22	22
FTE	22.00	22.00	22.00	22.00

<u>Overview</u>

The mission of the Oregon Board of Pharmacy (OBOP) is to promote, preserve, and protect 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 Board of Pharmacy regulates the practice of pharmacy as well as the quality, commerce, and distribution of drugs within and into Oregon. The agency is responsible for the licensure of individuals (pharmacists, pharmacy technicians, pharmacy interns, preceptors) by examination or through reciprocity with other states. The agency is also responsible for the registration and inspection of a growing number of hospital and retail pharmacies, drug wholesalers and manufacturers, and over-the-counter drug outlets. In addition, the agency investigates drug diversion and rule violations; and regulates the quality and distribution of controlled substances, prescription, and over-the-counter drugs within the state. The nine-member board includes five pharmacists, two pharmacy technicians, and two public members appointed by the Governor and confirmed by the Senate. In addition, a seven-member Public Health and Pharmacy Formulary Advisory Committee, established in 2018, consists of two physicians, two advanced practice nurses, and three pharmacists who are appointed by the Governor to evaluate concepts for protocols or post-diagnostic drugs and devices to recommend to the Board of Pharmacy for adoption by rule. Agency staff are internally organized into three sections: (1) Licensing; (2) Compliance; and (3) Administration, Communications, and Policy.

<u>Revenue Sources and Relationships</u>

The agency is supported entirely by Other Funds 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. There are no fee increases anticipated for the 2021-23 biennium. At the end of the 2021-23 biennium, the Board is expected to have an ending balance of $3.1 million Other Funds, which represents approximately eight months of operating reserves.

<u>Budget Environment</u>

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 (DEA), 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.

The Board responded to the COVID-19 public health emergency and the Governor’s Emergency Orders with a variety of changes to rules and processes to facilitate the safety and continuity of pharmaceutical services. The

Board adopted several emergency rules to protect the drug supply chain and provide services for vulnerable patients.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $9,463,698 Other Funds represents a 4.9% increase from the 2019-21 legislatively approved budget. The budget includes a $29,851 Other Funds increase in Personal Services expenditures to reclassify an Office Specialist 2 position to an Administrative Specialist 1 and to reclassify the Licensing Manger position from a Program Analyst 1 to a Principal Executive/Manager A, in accordance with required pay equity adjustments.

Legislatively Approved Budget Update

The agency's legislatively approved budget totals $9,691,342 and includes a $227,644 Other Funds increase for employee salary and other statewide compensation plan adjustments.

PUBLIC UTILITY COMMISSION

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	54,803,877	55,492,607	58,731,094	60,168,396
Other Funds (NL)	54,312,163	45,945,047	45,945,047	45,945,047
Federal Funds	1,074,677	1,180,926	1,180,926	1,219,585
Total Funds	**$110,190,717**	**$102,618,580**	**$105,857,067**	**$107,333,028**
Positions	130	129	140	140
FTE	127.75	128.00	135.50	135.50

Overview

The Public Utility Commission's mission is to ensure consumers are provided with access to safe and reliable utility services at equitable and reasonable rates through regulatory activities and the promotion of competitive markets. The Commission regulates customer rates and services of investor-owned electric, natural gas, and telephone utilities, as well as certain water companies, allowing regulated companies an opportunity to earn an adequate return on their investments. There are approximately 2.8 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 2021-23 legislatively adopted budget is $105.9 million total funds and 140 positions (135.50 FTE). The agency is organized into the following four programs:

- Utility Regulation Program ($81.7 million, 103.00 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. Beginning in 2021-23 the budgets for the Commission Chair, who serves as the agency's administrative head, and two Commissioners; the Executive Office, which is responsible for the overall strategic performance of the agency, public policy engagement, and agency communications; and the Administrative Hearings Division, which conducts rulemaking and contested case hearings involving major industry changes, rate proposals, and consumer complaints; are funded under Utility Regulation rather than Administration resulting in significant increases in the division's budget and position count.
- Residential Service Protection Fund (RSPF) Program ($11.9 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 and broadband service rates to about 53,000 eligible low-income Oregonians by providing a $12.75 monthly reduction for basic telephone service and $16.25 on basic broadband service ($10.00 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.

- Administration ($9.6 million, 22.00 FTE), previously Policy and Administration, led by the Chief Operating Officer, provides a comprehensive group of essential administrative services to support agency programs and operations. It encompasses three sections: Business Services, Information Systems, and Human Resources. The Consumer Services Section, Residential Service Protection Fund (RSPF), and Oregon Board of Maritime Pilots staff report to the Chief Operating Officer for administrative purposes only. The reduction of program cost and FTE from the 2019-21 biennium is a result of shifting the funding of four sections to Utility Regulation. Starting in the 2021-23 biennium, the Commission Office, Executive Office, Administrative Hearings and Consumer Services are no longer funded under Administration.
- Board of Maritime Pilots ($893,969, 2.00 FTE) is an independent occupational licensing and regulatory agency for state maritime pilots, whose mission is to protect public health, safety, and welfare by ensuring only the best-qualified persons are licensed to pilot vessels in Oregon's four pilot-required areas: Yaquina Bay, Coos Bay, the Columbia River, and the Willamette River. A maritime (or marine) pilot is a local navigational and ship-handling expert who directs the course and speed of vessels based upon knowledge of wind, weather, tides, currents, and local geography. While the Board is a part of PUC for budget and administrative purposes, it retains authority for all policy decisions regarding the regulation of pilots.

Revenue Sources and Relationships

The Commission is funded with $58.7 million Other Funds, $45.9 million Other Funds Nonlimited, and $1.2 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 $3,409 per pilot in the 2021-23 biennium. Total expected revenue is $777,935 for the biennium.

Budget Environment

The Commission assesses annual fees on regulated electric, natural gas, water utilities, and telecommunications providers that fund most the Commission's operating expenditures. As customers continue to transition from landline to wireless services, the telecommunications industry's projected gross revenues will decrease between 2021 and 2023 resulting in a revenue loss of 6.5% per year. Commission revenue from the energy industry will be steady or increase slightly in 2021 compared to 2020. 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.

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 2020, cellular and communications inquiries accounted for nearly 45% 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 2021-23 legislatively adopted budget of $105.9 million total funds is $4.3 million, or 3.9% below the 2019-21 legislatively approved budget and includes 140 positions (135.50 FTE). The decrease from the legislatively approved budget is due to a $8.4 million adjustment to anticipated Other Funds Nonlimited (Oregon Universal Service Fund) revenue and expenditures. The Oregon Universal Service Fund surcharge is collected by the PUC and distributed to eligible telecommunication carriers in parts of Oregon where providing telephone service is costly is generating less revenue due to the decline in landlines or wireline revenue. As these are pass-through funds, PUC's revenue and expenditures are declining but with no impact on PUC operations.

Offsetting somewhat the net budget decrease are the following Other Fund budget increases:

- $321,971 for ongoing costs of the e-filing/e-discovery IT project.
- $1.2 million to increase the Oregon Telephone Assistance Program discount from $3.50 to $10.00 for eligible low-income households that subscribe to phone or broadband internet access service.
- $324,286 and one permanent full-time position (1.00 FTE) to comply with the provisions in SB 762, which provides statewide comprehensive directions to promote wildfire risk reduction, response, and recovery, including the development of a comprehensive statewide map of wildfire risk as well as the establishment and implementation of program activities related to defensible space, building codes, land use, and community emergency preparedness.
- $1.9 million and ten positions (6.50 FTE) to implement a new clean energy program (HB 2021) which sets greenhouse gas emission reduction targets for electric companies.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for PUC totals $107,333,028 and is 1.4% higher than the legislatively adopted budget. The approved budget includes expenditure limitation increases of $1,437,302 Other Funds and $38,659 Federal Funds, for salary and other statewide compensation adjustments through the end of the 2021-23 biennium. No additional changes to Other Funds, positions, or FTE were made.

REAL ESTATE AGENCY

Analyst: Walker

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	10,336,185	8,995,739	9,768,489	10,141,433
Total Funds	**$10,336,185**	**$8,995,739**	**$9,768,489**	**$10,141,433**
Positions	29	29	29	30
FTE	29.00	29.00	29.00	29.75

Overview

The Real Estate Agency is responsible for licensing, continuing education, and the enforcement of Oregon's real estate laws applicable to brokers, property managers, and real estate firms. Application fees and fees paid for professional licenses by brokers, principal brokers, and property managers make up 97% of all revenue collected. Additional revenue is derived from charges for services and fines and forfeitures, with all civil penalties transferred to the General Fund.

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 2021-23, $9.6 million, is projected to be 10.0% more than 2019-21 due to a revised revenue projection in license fees due to improved economic conditions. Although home values have increased due to a tight demand, the number of listings has likewise decreased, and time on market has decreased. The agency anticipates that revenues may be severely impacted in 2023-25 and 2025-27. The housing market fundamentals tend to drive the number of renewals and new licensees entering the marketplace and therefore the revenue for the Agency. The 2021-23 projected ending balance provides approximately 13 months of operating costs.

Budget Environment

The economic downturn in the 2019-21 biennium was anticipated to result in lower than expected revenues from licensing and fees like the recession in 2008. However, the housing market remained stable and has markedly improved with substantial home value increases and a tight housing market. This in turn has increased the number of individuals seeking licensure and a corresponding increase in fee revenue. It is anticipated that these conditions will remain in the near future.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the agency totals $9.8 million Other Funds with 29 positions (29.00 FTE). The budget is a 5.5% decrease from the 2019-21 legislatively approved budget. During the August 2020 special session, the Legislature increased the Agency's expenditure limitation by $899,415 Other Funds to provide sufficient limitation to pay for expenses related to examination services paid to an examination vendor. These funds are paid directly to the examination vendor by the applicants and reflect a higher volume of examinations than originally projected during budget development. This mechanism is used as an "audit" point to track the volume of examinations provided by the vendor.

Legislatively Approved Budget

The 2021-23 legislatively approved budget increased the agency's budget by 3.8 % over the 2021-23 legislatively adopted budget. The approved budget includes $151,083 Other Funds to establish one full-time limited duration position (0.75 FTE) to plan for and implement a new online licensing and case management system and $221,861 Other Funds for salary adjustments through the end of the 2021-23 biennium.

BOARD OF LICENSED SOCIAL WORKERS

Analyst: Walker

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	2,045,204	2,155,282	2,212,614	2,271,967
Total Funds	**$2,045,204**	**$2,155,282**	**$2,212,614**	**$2,271,967**
Positions	6	6	7	7
FTE	6.00	6.00	7.00	7.00

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 2021-23, $2 million, is projected to be 12.4% greater than 2019-21 due to an increase in licensees related to the expansion of the Board's licensing authority. The 2021-23 projected ending balance could support approximately seven months of operating costs. The agency will review whether or not fee increases are warranted in 2023-25.

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 Bachelor of Social Work and Licensed Masters of Social Work. This increased both the licensing and the compliance workload of the Board. The bill also added criminal background check requirements for licensees. The Board has continued to experience increased expenses due to a boost in investigations as a result of an expansion of the licensee base.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget totals $2.2 million Other Funds with 7 positions (7.00 FTE). The budget is an 8.2% increase from the 2019-21 legislatively approved budget. The budget increased the Board's Other Funds expenditure limitation by $143,334 to provide sufficient limitation to pay for a limited duration Investigator position to decrease the response times on investigations. The agency will review the progress being made and decide if the position should be extended.

Legislatively Approved Budget

The 2021-23 legislatively approved budget increased by 2.7% over the 2021-23 legislatively adopted budget. The approved budget includes an expenditure limitation increase of $59,353 Other Funds, for statewide compensation adjustments through the end of the 2021-23 biennium.

BOARD OF TAX PRACTITIONERS

Analyst: Graham

Agency Totals

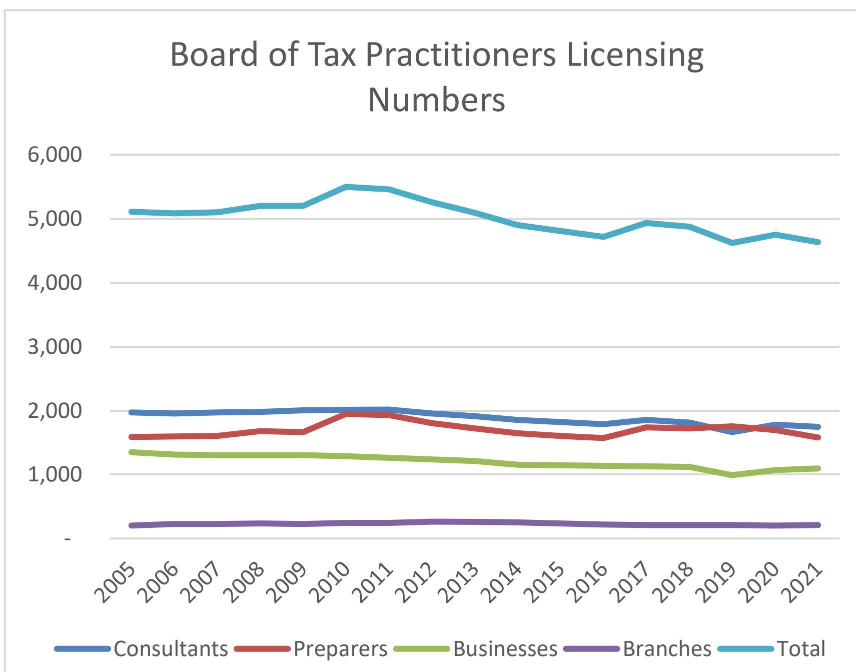
	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	1,116,398	1,213,489	1,082,116	1,166,969
Total Funds	**$1,116,398**	**$1,213,489**	**$1,082,116**	**$1,166,969**
Positions	3	3	2	2
FTE	2.50	2.50	2.00	2.00

Overview

The Oregon Board of Tax Practitioners protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. The Board licenses and oversees Tax Preparers, Tax Consultants, and tax businesses. The Board develops initial competency examinations and monitors required continuing education programs for tax 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 agency has not increased licensing and renewal fees since 2007 and will likely need to increase fees during the 2023-25 biennium due to an ending balance projected to fall below a recommended three to six months of operating reserves.



Budget Environment

The agency has made a substantial effort to reduce costs and increase workload efficiencies over the last few biennia, including relocating their office to less expensive space, decreasing staffing as a result of new IT initiatives, and contracting with an exam proctoring company to reduce administrative tasks. As a result of this work, the agency has gone from four positions in the 2015-17 biennium, to just two positions in the 2021-23 biennium.

Overall licensing numbers peaked in 2010 with around 5,500 licensees, then declined steadily until 2016, when approximately 4,700 licenses were issued. Since then, the number of licensees has stabilized to some degree. Although there are annual fluctuations in licensing numbers, between 4,620 and 4,929 tax consultants, tax preparers, and businesses were licensed each year since 2016.

Legislatively Adopted Budget

The legislatively adopted budget for the Board of Tax Practitioners totals $1,082,116 Other Funds and is a 3% decrease from the 2019-21 legislatively approved budget. The budget eliminates the agency's Program Analyst 1 position, which was vacant for most of the 2019-21 biennium due to administrative efficiencies, and it increases an existing Administrative Specialist 1 position from part- to full-time.

Legislatively Approved Budget Update

The legislatively approved budget for the Board of Tax Practitioners totals $1,166,969 Other Funds, which is a 7.8% increase from the 2021-23 legislatively adopted budget. Initially, the Legislative Fiscal Office anticipated that the Board would need fee increases in the 2023-25 biennium due to decreasing licensing and renewal numbers. However, based on November 2021 projections, the Board was estimated to have a revenue shortfall of just over $72,000 in 2021-23 due to steadily declining numbers of licensees and examinees for licensure, especially over the last two years of the COVID-19 pandemic. For example, the number of active licensees decreased by 11.7% in 2021 and the number of examinees for licensure decreased by 23% in 2021 from a year prior. To cover the biennial shortfall, the Legislative Assembly approved the Board's request for various fee increases and increased the Board's expenditure limitation by $72,100 Other Funds in the 2022 legislative session. The legislatively approved budget also includes changes to the state employee compensation plan and other technical adjustments for state agencies.

NATURAL RESOURCES

PROGRAM AREA

DEPARTMENT OF AGRICULTURE

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	24,535,085	26,580,755	33,818,652	78,763,099
Lottery Funds	10,866,818	8,554,981	10,375,039	11,588,227
Other Funds	78,590,027	81,162,267	81,365,433	123,504,515
Federal Funds	17,797,207	16,664,830	18,411,423	18,626,329
Total Funds	**$131,789,137**	**$132,962,833**	**$143,970,547**	**$232,482,170**
Positions	514	484	518	535
FTE	385.36	368.09	397.60	407.17

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 2021-23 legislatively adopted budget, 31% 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. The Department is constantly reviewing and analyzing fee revenue related to program costs and taking steps to administratively increase fees in order to keep the programs operational.

Federal Funds are primarily received by the Natural Resources and Agricultural Development and Marketing policy areas. Federal Funds are used for Specialty Crop grants to promote certain agricultural products in the state, plant and animal health protection, invasive species management and prevention, pesticide regulation, implementing new federal food safety standards, and laboratory services.

Budget Environment

Population growth in Oregon has led to increased competition for available natural resources, including water and land. The Department's level of involvement with coordination and development of water use, land use, and conservation plans with other agencies and affected parties has been steadily increasing. Conservation issues are becoming more complex, requiring more planning and inter-agency cooperation. For Food Safety, population growth brings a corresponding increase in the number and complexity of food establishments. In addition, over 600 food product sampling and testing inspections are done under contract for the Food and Drug Administration (FDA) each year. Oregon agricultural producers currently sell about 80% of their products outside of the state and 40% outside the country. Assistance for farmers, ranchers, and specialty food producers in finding new domestic and global markets for their products is a priority for the Department. Building markets is accomplished through market research, attendance at trade shows, direct negotiations with international buyers, and promotional activities aimed at specific Oregon products. The Commodity Inspection Division validates and promotes Oregon agricultural products through inspection and certification services and communications with producers, wholesalers, and retailers and its activity level is driven solely by the demand for its services.

Over the past two biennia the Food Safety Policy Area has seen its reliance on Other Funds from fee revenues increase as General Fund constraints have impacted the program. With the Legislature's $1.8 million fund shift from General Fund to license fees in 2017 for the Food Safety inspection program, the 3% annual fee increases approved during the 2019 session are not sufficient to keep up with rising costs of the program. Additionally, the program continues to deal with a backlog of overdue inspections in the program, however efforts to make progress on the backlog have been severely hampered by the COVID-19 pandemic.

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.

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 that has required additional resources as the workload continues to increase.

Legislatively Adopted Budget

The adopted budget for the Department of Agriculture totals almost $144 million. The budget includes $33.8 million General Fund, $10.4 million Measure 76 Lottery Funds, $81.4 million Other Funds, and $18.4 million Federal Funds. The total funds budget is 9.2% higher than the 2019-21 legislatively approved budget level. The budget includes 518 positions (397.60 FTE), which is an increase of four position from 2019-21 levels.

The General Fund budget is $9.3 million, or 37.8%, higher than 2019-21 levels. $4.3 million of this increase was authorized in legislation outside of the Department's budget bill (SB 5502). General Fund increases include:

- $2 million of one-time General Fund to establish a grant program to fund construction and upgrades to establishments that will operate under the State Meat Inspection Program that was authorized within ODA by HB 4206 (2020 first special session). This one-time funding was provided in HB 2785 (2021).
- $883,374 to support water quality work in small watersheds, including funding for a permanent position and land condition assessments for compliance with agricultural water quality rules. Of the amount provided, $650,000 will be used to contract with local partners to provide technical assistance to landowners.
- $468,311 to support two permanent positions for the Native Plant Conservation Program that will allow for more focus on the administrative needs of the program and the development of State projects.

The following increases to the General Fund, totaling $1.15 million, were included in HB 5006 as one-time investments:

- $200,000 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.
- $450,000 for the Department's noxious weed control program.
- $500,000 to continue work related to the State's groundwater management areas, including coordination of a task force around the Lower Umatilla Basin Ground Water Maintenance Area and funds to complement existing research around fertilizers and nitrate levels impacting groundwater. This is part of a larger state-wide investment in water programs.

The Department's budget bill, SB 5502, included the following General Fund investments:

- $1.5 million to support the Food Safety inspection program. Without additional General Fund support, the program estimated the need for a 30% fee increase, anticipated to be implemented through 15% increases in fiscal years 2022 and 2023. However, with this influx of General Fund, the necessary fee increases to fund the program can be reduced from up to 15% to up to 7% for each of those fiscal years.
- $926,195 to support three positions as part of the State Meat Inspection Program established by HB 4206 (2020 first special session).
- $400,000 of one-time funding to increase Wolf Depredation Compensation and Financial Assistance Grants.
- $102,361 to reverse a 2019 fund shift that eliminated General Fund support in the Native Plant Conservation Program and shifted the costs to Federal Funds. Reversing the fund shift will allow the Department to better respond to state-related work.
- $75,000 to continue collection and testing of water samples from Klamath Lake for nutrients. This is a one-time investment as part of a larger State-wide investment in water programs.

Lottery Funds, which are all constitutionally dedicated M76 funds, increased by 22% over the 2021-23 current service level due largely to the addition of $1,924,461 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. A record number of Japanese Beetles were found in the Department's traps in 2017 and recent efforts have shown good progress, however some trapping activities were reduced in 2020 during the COVID-19 pandemic. ODA estimates the economic impact of allowing the pests to become established in Oregon to be over $45 million in damages.

Other Funds are $2.8 million, or 3.5% higher, than 2019-21 due largely to a significant investment in the Hemp Program with the addition of 10 permanent positions. Additional Other Funds include a one-time increase of $487,897 and two limited duration positions within the Pesticides Program. These positions will provide additional support to the pesticide workload around cannabis cases coming from the Oregon Liquor and Cannabis Commission (OLCC) and are funded through a transfer from OLCC. Long-term funding is contingent on the Commission reporting to the Legislature on a more permanent revenue mechanism to fund work at other state agencies on behalf of OLCC.

The 2021-23 budget includes increases to fees that were administratively approved by the Department and then ratified by the Legislature. Fee increases ratified in SB 5503 include 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, and the establishment of the Animal Rescue Entity License Fee authorized by SB 883 (2019).

In addition to the fees ratified and approved within the Department's budget, the statutory caps on some fees were increased which will allow the Department to increase fees administratively going forward. This includes increases to the statutory caps on Food Safety fees (SB 33), Livestock Identification Program fees (SB 32), and Commercial Feeds Program fees (SB 36).

Federal Funds increased by 3.5% over 2019-21 budget levels. This includes funding for a limited duration soil health position, continuation of a limited duration position conducting outreach to reduce avian influenza, and $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.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for the Department of Agriculture is $78.8 million General Fund, $11.6 million Measure 76 Lottery Funds, $123.5 million Other Funds, $18.6 million Federal Funds, and 535 positions (407.17 FTE). The total funds budget is $88.5 million, or 61.5%, higher than the 2021-23 legislatively adopted budget level as a result of actions taken during the second special session of 2021 and the 2022 session and includes 17 new positions totaling 9.57 FTE.

Most of the increase in the Department's budget occurred via SB 5561 in the second special session of 2021, which included $40 million of one-time General Fund for deposit into the Oregon Agricultural Disaster Relief Fund for the establishment of a forgivable loan program to assist farming and ranching producers who have sustained crop losses due to drought and other disasters. A corresponding $40 million Other Funds expenditure limitation was also included in order to distribute loans out of the fund. Four limited duration positions (3.00 FTE) were included to establish program rules, as well as provide funding coordination, oversight, outreach, and assistance to landowners. The agency does not have experience operating a loan program, so a portion of the administrative costs includes funding to contract with local and regional lending organizations to rely on their expertise to distribute the loans more efficiently and effectively.

In addition to the forgivable loan program, SB 5561 also provided $4 million General Fund and $1 million of constitutionally dedicated Measure 76 Lottery Fund for one-time costs related to grasshopper and cricket suppression. The Measure 76 Lottery Funds is for 10 limited duration positions (4.76 FTE) to conduct survey work to determine populations and treatment plans. The General Fund provided includes approximately $3.8 million for a cost-share program, allowing private landowners to get financial assistance from the Department for up to 75% of the expense of suppression treatment. The remainder of the General Fund is for a limited duration position (0.75 FTE) to assist with the cost-share program establishment, implementation, and oversight.

A one-time General Fund appropriation of $180,000 was provided in HB 5202 (2022) to support the Department's Animal Rescue Entity Program established by SB 883 (2019). This program regulates animal rescue entities through licensure and inspections of facilities and was intended to be a self-funded program. However, the number of organizations required to be licensed is significantly less than anticipated. As a result, the annual fee of $375 is not sufficient to fund the Natural Resource Specialist 3 (1.00 FTE) position that administers the program. The one-time funding provided is intended to keep the program operational for the remainder of the biennium, and the Department is expected to return to the 2023 Legislature with proposals for program sustainability.

Finally, the Department's legislatively approved budget includes $3.3 million of increases among all fund types for previously approved salary and compensation plan adjustments.

COLUMBIA RIVER GORGE COMMISSION

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,160,612	1,204,071	1,382,749	1,408,207
Total Funds	**$1,160,612**	**$1,204,071**	**$1,382,749**	**$1,408,207**

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.

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 both Joint Expenses and Commissioner Expenses.

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.

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.

For 2019-21 biennium the bi-state approved budget added one planner position and now supports eight positions, 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.

Legislatively Adopted Budget

The Columbia River Gorge Commission's legislatively adopted Oregon budget for the 2021-23 biennium totals $1,382,749 General Fund. The budget is a 19.1% increase from the 2019-21 legislatively approved budget and is 14.8% above the 2021-23 current service level. The Oregon adopted budget includes $1,354,000 for joint operational expenses and $28,749 for Oregon commissioner expenses. The budget includes a one-time General Fund appropriation of $212,500 to begin the process of replacing the Commission's antiquated Access database system with a modern information management system. Updating the database will allow for electronic records management assisting the agency in processing information requests for internal work and records requests from stakeholders and should provide a great deal of efficiency to agency operations. The State of Washington budget also included matching funds for this project. There are no Oregon positions or FTE associated with the Commission; all Commission staff are counted as State of Washington employees.

Legislatively Approved Budget Update

The legislatively approved budget for CRGC totals $1,408,207 General Fund which is an increase of $25,458, or 1.8%, from the legislatively adopted budget. The increase was made to cover Oregon's 50% share of increased operating costs, which were the result of increases in Washington's budgeted expenditures related to audit services, central services, wage increases, and employee insurance benefits.

DEPARTMENT OF ENERGY

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,940,000	--	74,411,388	106,945,789
Lottery Funds	3,023,365	3,022,570	3,022,570	3,022,570
Other Funds	33,621,773	29,098,987	67,950,612	89,319,041
Other Funds (NL)	67,838,488	31,659,374	31,659,374	31,659,374
Federal Funds	3,347,683	2,818,981	3,123,175	3,562,705
Federal Funds (NL)	104,000	--	--	--
Total Funds	**$109,875,309**	**$66,599,912**	**$180,167,119**	**$234,509,479**
Positions	81	78	93	99
FTE	79.25	76.77	91.00	94.44

<u>Overview</u>

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 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 until the 2021 session created new programs, which will be discussed below. Other Fund Nonlimited revenues generated through SELP, including loan principal and interest repayments and investment earnings, have supported 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 has been provided by the Legislature to issue new loans since the 2015-17 biennium. ODOE receives other revenue proceeds from the sale of tax credits for the Renewable Energy Development 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 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 - This 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 were within the Administrative Services Division, and the agency indirect rate is above 60%.

Revenue Sources and Relationships

As recently as the 2019-21 biennium, Other Funds revenues had support 86% of the Department's 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 several biennia and a $3.5 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 ESA 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.

Historically, the Department has not received General Fund for its programs, outside of the debt service payments mentioned above. However, HB 5006 (2021) established $10 million of General Fund for the Solar Rebate Program, $10.8 million for creation of an Energy Efficient Rebuilding grant program related to 2020 wildfire damage, and HB 2021 (2021) established the Community Renewable Investment Fund and provided a $50 million General Fund appropriation. Overall, this is massive increase in General Fund compared to the 2019-21 legislatively approved budget, when ODOE received less than $2 million General Fund the entire biennium.

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, 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 close 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. This ruling would require the Department to refund the 2016 ESA to the petitioners, estimated to be $830,000. The Department appealed this ruling, and in October 2020 the Court of Appeals ruled that the 2016 trial court order was reversed. ODOE is currently not required to refund the ESA to the petitions nor pay their attorney fees. Similar lawsuits for the 2017 and 2018 ESA were in abeyance awaiting the outcome of the appeal, and the Department of Justice is now requesting for dismissal in those cases. The Department has learned that the ESA litigants do not intend to appeal the Court of Appeals' ruling regarding the 2016 lawsuit.

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 will require a General Fund appropriation to cover debt service on outstanding bonds. As the 2019-21 budget was being developed, the SELP Fund was projected to have a cash flow deficit that would require $4.3 million General Fund appropriation to cover a bond payment beginning in April 2021. However, due to cost savings in the program and one of the largest borrowers prepaying their loan, the program ended up with enough cash flow to pay the 2021 debt service without utilizing the General Fund.

Currently, ODOE estimates a potential shortfall of approximately $5 million, with a General Fund need of $3.5 million in 2021-23 to address payments due in April of 2022 and 2023 and then one more debt service payment in April 2024 of approximately $1.5 million. However, this estimate is dynamic and may be reduced based on revenue received. Although no bond authority has been provided in two biennia to issue new loans, ODOE continues to administer the existing loan portfolio. The SELP program currently has 63 loans, around half with higher education institutions, two are large private loans but are performing well, and the remainder are mostly small loans with limited risk. Current projections also anticipate the SELP program to regain solvency by 2035 and have a balance of $4.6 million with which the program could repay the General Fund.

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. 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.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for ODOE is $180.2 million total funds, including 93 positions (91.00 FTE). This is a significant increase and a more than doubling of the prior biennium budget, which is attributable entirely to a massive influx of General Fund and more than doubling of Other Funds limitation. Nearly all this increase came outside of the Department's 2021-23 budget bill (SB 5515) as one-time funding.

HB 5006 (2021) provided one-time funding for two grant programs to be operated by the Department in 2021-23. First, is $10 million for the solar rebate program that was established in HB 2618 (2019). The $10 million will be deposited into the Rooftop Solar Incentive Fund for the issuance of rebates and to pay for implementation and administration of the solar rebate program. Of the $10 million, almost $9.2 million is available for rebates through Special Payments with $803,822 estimated for administration costs. The Department anticipates hiring three limited duration positions, a half-time Program Manager 3 and two Office Specialist 2 positions (2.50 FTE). Personal Services costs are anticipated to be $364,182, with $439,640 for services and supplies that include IT upgrade and indirect costs. This program was previously provided $2 million of one-time General Fund in 2019-21 and the program proved to be extremely popular with high demand for the grant funding.

The second grant program is a new program designed to incentivize residential and commercial energy efficiency for 2020 wildfire survivors who are rebuilding and repairing dwellings and other structures that were destroyed or damaged in the 2020 wildfires. For this program, the Legislature provided $10,831,296 General Fund, of which $10 million is provided to make available for grants and $831,296 General Fund is for administration of the program. The Department anticipates hire three full-time limited duration positions, an Accounting Tech 3 and two Program Analysts, along with utilizing existing personnel to assist with program establishment, implementation, and oversight.

Finally, HB 2021 (2021) establishes clean energy standards for Oregon and creates a Community Renewable Investment Program Fund with $50 million General Fund for deposit into the fund. The Department is directed to oversee the Fund, and to examine opportunities for improvement and development of renewable energy projects and provide grants from the Fund. With the General Fund being deposited into the Fund, the Department's Other Funds limitation was increased by $27 million in order to cover the administrative expenses and to provide roughly $25 million in projected grants during the 2021-23 biennium. The remainder of the funding is anticipated to be expended in the 2023-25 biennium. The Department anticipates seven positions (7.00 FTE) will support work directly related to the Community Renewable Investment Program and will be paid for through the Fund.

Changes to the budget in the Department's budget bill include:

- $1,454,770 Other Funds representing the estimated final remaining projects related to the Department's Renewable Energy Grants program, which has sunset.
- $488,630 Other Funds and continuation of 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. These positions are supported from cost recovery fees and a small percentage from the ESA.
- $237,994 Other Funds for a limited duration Information Systems Specialist 7 position (1.00 FTE) to address data development needs and assist with development and support for existing databases in need of updating or replacement.
- $186,500 Other Funds for a permanent Research Analyst 3 (1.00 FTE) position to enhance work related to various energy studies that contribute to the Department's Biennial Energy Report.
- $80,092 General Fund to shift a portion of the costs of an existing position in the Nuclear Safety program from Federal Funds to General Fund. This position is responsible for monitoring and enforcing compliance standards with statutory and administrative rules regarding the disposal of radioactive material in Oregon. The work is budgeted with Federal Funds, has been supported by the Energy Supplier Assessment, but is more appropriately funded by General Fund as this is a statewide issue.

<u>Legislatively Approved Budget Update</u>

The legislatively approved budget for the Department is $106.9 million General Fund, $3 million Lottery Funds, $89.3 million Other Funds, $31.7 million of Other Funds Nonlimited, $3.6 million Federal Funds, and 99 positions (94.44 FTE). The total funds budget is $54.3 million, or 30.2%, higher than the 2021-23 legislatively adopted budget level as a result of actions taken during the 2022 session and includes 6 new positions totaling 2.50 FTE.

The most significant change to the Department's budget is a result of the passage of SB 1536 (2022), which appropriated $25 million in one-time General Fund for deposit into two newly created funds, the Heat Pump Deployment Fund and the Residential Heat Pump Fund. Both funds are designed to support grant and rebate programs. The Department received six limited duration positions, totaling 2.50 FTE, to be divided up between the two programs. A corresponding Other Funds expenditure limitation was provided of $11.9 million, relative to the anticipated expenditures out of these funds for the remainder of the biennium. The Department will request additional Other Funds expenditure limitation as part of its 2023-25 agency requested budget to expend the remainder of the $25 million funding provided. SB 1536 also provided $2.5 million of one-time General Fund, with $2 million for a Community Cooling Center grant program, and $500,000 for the Department to contract for a study on cooling and electrical needs of publicly supported housing.

Additional changes included the deposit of $5 million of one-time General Fund into the Rooftop Solar Incentive Fund, with a corresponding increase in Other Funds expenditure limitation. This brings the total for this Fund up to $15 million for the biennium. Additional Federal Funds expenditure limitation of $327,996 was provided in SB 1567 (2022) for the development of energy security plans, and small increases were made in General Fund, Other Funds and Federal Funds for previously approved statewide employee compensation adjustments.

Finally, an adjustment was made to the General Fund debt service that had been provided to the Department for the SELP program. The original debt service, totaling $3.5 million, was provided in HB 5006 (2021) to cover bond payments due in April 2022 and 2023. However, the statutory provisions of the SELP program require that any debt service payments must be paid through the Small-Scale Local Energy Project Administration and Bond Sinking Fund established in ORS 470.300. As a result, the General Fund debt service provided in HB 5006 was eliminated and $3.5 million General Fund was appropriated specifically for deposit into the Sinking Fund, with a corresponding Other Funds expenditure limitation being provided to make debt service payments in 2022 and 2023.

DEPARTMENT OF ENVIRONMENTAL QUALITY

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	56,574,163	61,606,527	75,350,378	109,846,109
Lottery Funds	5,557,353	6,045,171	6,038,769	6,263,319
Other Funds	229,495,350	236,699,507	266,829,972	301,838,098
Other Funds (NL)	176,913,330	203,830,055	244,000,055	244,000,055
Federal Funds	30,280,946	31,013,286	29,556,067	30,134,046
Total Funds	**$498,821,142**	**$539,194,546**	**$621,775,241**	**$692,081,627**
Positions	791	774	817	829
FTE	765.66	768.30	806.99	813.34

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 that originate as Federal Funds from the U.S. Environmental Protection Agency (EPA).

<u>Revenue Sources and Relationships</u>

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 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% of all fund types 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 fee schedule that funds 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.

  The March 2020 Emergency Board provided DEQ with 10 positions to begin work around an Executive Order directing DEQ to create rules for a greenhouse gas cap and reduce program. The draft rules for this Climate Protection Program have been released and were finalized by the Commission in late 2021. This program, designed to reduce greenhouse gas emissions and address the effects of climate change, is in its infancy and the level of resources needed to continue operations has not been determined. Additionally, a permanent revenue source to continue the program has not been established, and it is anticipated the Department will need to come forward with a long-term funding proposal.

  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. HB 2007 (2019) was approved by the Legislature extending the authorized use of the VW monies beyond school buses, to include trucks, boats, trains and nonroad equipment. The Department spent $10.5 million in 2019-21 on school buses and anticipates expending around $16 million of the VW settlement funds in 2021-23.

Finally, the VIP program had a projected revenue shortfall in 2019-21 and the Department requested a fee increase to continue to fund the program at existing operational levels. 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 in 2019. The Department and EQC formally acted on a determination for a similar fee increase for the 2020 session, however it did not get passed prior to sine die. Finally, the Department brought forward the fee increase again in 2021 through SB 5517 that was approved, increasing the Portland fee to $25, and the Medford fee to $20.

- 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 and the 2021 session, the quality and quantity of Oregon's water emerged as one of the Legislature's top priorities, resulting in significant investments 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 state's water quality 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 is intended to 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 anticipated being able to utilize CWSRF funds once rulemaking was completed, however this has proven to be more complicated than anticipated. Essentially, many of the low-cost loans that have been provided in the past functioned more as forgivable loans or even grants which is not an acceptable use of CWSRF funds. As a result, the Department is attempting to determine the best mix of funding for the onsite program to serve all communities in need.

- 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, usually every couple biennium. Most recently, the 2017-19 budget included $10 million in bond authorization to fund Orphan Site maintenance and remediation with another request anticipated in 2021-23. 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, was directed by a budget note to undertake a comprehensive review of its accounting and budget structures and was to alignment with existing State budget systems. As part of this review the Department was 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. This review uncovered a number of complicated processes that will take time for DEQ to untangle and determine the best solution going forward. Unfortunately, much of the anticipated work was derailed due to the COVID-19 pandemic. While no significant accounting or budget structure changes occurred in the 2021-23 biennia, the Department is anticipated to bring a proposal forward in the 2023-25 biennia.

  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 were authorized for issuance in May 2020. The most recent total estimated development costs of the project were around $9.5 million. The project is anticipated to be rolled out in three waves, the first of which started in late Spring 2021. A budget note has been included in SB 5516 directing the Department to provide a comprehensive report on the status of the EDMS program during the 2022 legislative session.

- 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 federal funds annually from the EPA to capitalize the CWSRF and must provide a match of 20%, or around $3 million per year.

Legislatively Adopted Budget

The legislatively adopted budget for the Department of Environmental Quality is $75.4 million General Fund, $6 million Measure 76 Lottery Funds, $266.8 million Other Funds, $29.6 million Federal Funds, and 817 positions (806.99 FTE). The budget total also includes $244 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $123 million, or 24.6%, higher than the 2019-21 legislatively approved budget level. Of this increase, over half is attributable to an increase in Nonlimited funding.

The General Fund budget is $18.8 million, or 33%, higher than 2019-21. Most of the General Fund increase is a result of the Legislature's overall investment in water quality and quantity issues across multiple agencies as well as responding to the needs of communities impacted by the 2020 wildfires.

For DEQ, the following water-related investments were included in the budget bill:

- $2 million of one-time General Fund for low cost loans to repair or replace failing septic systems. This program first established in SB 1563 (2016), has received one-time funding in prior biennia and is administered by a third-party.
- $1.1 million added to significantly improve DEQ's ability to issue water quality permits, work on water quality standards, and develop TMDLs, and includes establishment of four permanent positions (2.88 FTE). The Department has been required by a court order to revise fifteen plans focused on reducing water temperature over the next seven years in addition to the regular high-priority backlog of work that already exists.
- $675,007 General Fund to reflect the roll-up costs in the 2021-23 biennium for two positions that were established in HB 5042 (2021) for sampling and lab testing of cyanotoxins in waterbodies.

Additional water-related investments were included in HB 5006:

- $569,382 General Fund was approved on a one-time basis to cover the administrative costs of a new financial assistance program that will provide funding to public agencies or qualified institutions for the repair, replacement, upgrade or evaluation of residential or other on-site septic systems. This program is related but separate from the onsite septic program that was provided $2 million of one-time funding in DEQ's budget bill. DEQ will need to determine the most efficient and effective method of distribution for this financial assistance program, intended to assist wildfire impacted communities, including the possibility of providing low-interest loans, forgivable loans, or potentially even grants. The additional funding for this financial assistance program will come from the Department of Administrative Services through a revenue transfer of federal American Rescue Plan Act Coronavirus State Fiscal Recovery Fund monies.
- $420,099 General Fund to backfill the costs of positions within DEQ's Section 401 Hydropower Program. This program, named after Section 401 of the federal Clean Water Act, issues certifications for hydroelectric projects as part of a licensing process in conjunction with the Water Resources Department for hydroelectric water rights. Fee revenue for this program was insufficient to maintain operations, so a fee increase had been proposed in HB 2143 (2021). However, the increase to the annual fees in that measure were amended to not take effect until the 2023-25 biennium, resulting in a revenue shortfall for DEQ. This one-time General Fund has been provided in order to maintain operations through the 2021-23 biennium until the fee increase becomes effective.
- $350,000 of one-time funds to begin initial scoping and design of a database framework of water and infrastructure data. This is likely to become a significant information technology project that DEQ will need to develop a funding request for further development of this database framework.

DEQ also received General Fund as part of the statewide response to the 2020 wildfires. HB 5006 provided $3 million of one-time funding as part of DEQ's cost-share with the Federal Emergency Management Agency for hazardous waste and structural debris cleanup. SB 762 (2021) provided the Department with one-time funding to develop and implement three interrelated programs around wildfire smoke and its impact to communities.

- $486,698 and two limited duration positions to support local communities in detecting, preparing for, and mitigation the environmental and public health impacts of wildfire smoke.

- $1.7 million to provide grants or cooperative agreements to support local communities to develop and implement community response plans for wildfire smoke. Of this amount, $1.5 is available for grants or cooperative agreements.
- $1.1 million to build, deploy, and maintain an expanded smoke monitoring network, compile data and forecasting, and provide technical support for communities interested in setting up their own monitoring equipment.

Other General Fund investments across the Department's programs included:
- $1.4 million General Fund for additional resources to continue implementation of the greenhouse gas reduction program, currently under development by the Department. Of this amount, $700,000 is considered one-time funding.
- $365,236 General Fund to support a position to assist in the Department's implementation of titling and registration requirements around HB 2007 (2019). The first deadline for compliance is in 2023 and DEQ anticipates a high volume of workload as that deadline approaches.
- $250,000 to support the Lane Regional Air Protection Agency.
- $395,030 General Fund for debt service related to the sale of general obligation bonds to replenish the Orphan Site Account used to fund cleanup of orphan sites.

Other Funds Limited are $34.3 million (or 102%) higher than 2019-21 totals. Other Funds changes by program include:
- Air Quality
  - $1.4 million to support the establishment of eight positions (8.00 FTE) in the VIP program that were eliminated due to a program revenue shortfall in 2019-21. Funding for these positions comes from the fee increases ratified in SB 5517 (2021).

- Water Quality
  - $15 million of Other Funds expenditure limitation for a new financial assistance program that will provide funding to public agencies or qualified institutions for the repair, replacement, upgrade, or evaluation of residential or other on-site septic systems. Because federal ARPA funding can be spent through 2026, it is anticipated that DEQ will need to request General Fund and position authority to continue administering the program for the 2023-25 biennium and beyond if necessary.
  - $1.6 million for the procurement of a commercial off-the-shelf loan portfolio management software to replace the current CWSRF manual and outdated system. Of this limitation, $150,000 is on-going for licensing agreements and maintenance while the remainder is considered one-time.

- Land Quality
  - $4.3 million to expend a portion of the proceeds from $10 million in Article XI-H general obligation bonds approved in SB 5505 (2021). The remainder of the proceeds are anticipated to be spent in 2023-25. This amount includes the bond cost of issuance.
  - $531,768 and two positions for Solid Waste Orphan Site Account related work to continue facilitating and overseeing cleanup of eligible solid waste disposal sites statewide.
  - $2.1 million in SB 582 (2021) to be used to modernize Oregon's recycling system and establish a producer responsibility program for packaging, printing, writing paper and food service ware. As part of this funding, six permanent positions and one limited duration position are included. This program will be funded through the establishment of a new fee.

- Agency Management
  - $3.1 million Other Funds to allow the Department to expend the carry-over revenue from the May 2020 bond sale that will be spent in 2021-23.
  - $1.6 million to cover the ongoing costs of the maintenance contract for EDMS. The revenue for this comes from SB 58, described in more detail below.

- $3 million to fund 11 permanent positions (11.00 FTE) to support staffing needs in the Central Services Division of Agency Management. These positions will support increased Department-wide demands on human services, facilities, financial services, and EDMS. All of these positions are funded through the indirect rate charged to each of the Department's program areas across all fund types and is anticipated to be around 20% in 2021-23.

Other Funds Nonlimited, which are attributed to the CWSRF program, were increased $67 million over 2019-21, 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 2021-23 budget includes several increases to fees, either assumed within the Department's budget (SB 5516), fee ratification bill (SB 5517), or in separate policy bills. SB 5517 contained fees administratively approved by the Department that required ratification by the Legislature. This includes the VIP fees increased in the Portland-metro area from $21 to $25 and in the Medford area from $10 to $20. These fees have not been raised since 1996. In addition to the VIP fees anticipated to generate $4.5 million in revenue in 2021-23, the Department's budget also assumes a 30% increase to the asbestos health protection program fees that will generate $600,000 in 2021-23. This fee increase is expected to fund the existing program, with the last increase over a decade ago.

Finally, two policy bills were passed during the 2021 legislative session that also increased program fees:

- SB 57 modified fees for the disposal of certain types of waste. Three types of hazardous waste would now have a disposal fee of $20 per ton rather than the tiered system previously in place. Additionally, disposal fees, often referred to as a "tipping fee", are increased from $2 per ton to $5 per ton. The fees are intended to support the current program and have not been updated since 2003.
- SB 58 allows the Department to impose a 4% surcharge on each fee or invoice generated through the EDMS system which will be used to defray the costs of licensing and hosting the system, estimated at $800,000 per year. The surcharge will be included in the fee or invoice payment associated with the surcharge and adjusted biennially based on the volume of invoices generated through EDMS. It is anticipated that the surcharge will be reduced as more programs utilize the system and a higher volume of invoices are generated. Additionally, SB 58 allows DEQ to pass on the "convenience fees" that financial institutions charge for credit card use, to the payee rather than DEQ having to cover those costs.

There were no significant additions to the Department's Lottery or Federal Funds budgets. Measure 76 Lottery Funds are up 8.7% from 2019-21 totals but is equal to the current service level budget and Federal Funds expenditure limitation decreased slightly (down 2.4%) from 2019-21 levels.

<u>Legislatively Approved Budget Update</u>

The legislatively approved budget for the Department of Environmental Quality is $109.8 million General Fund, $6.3 million Measure 76 Lottery Funds, $301.8 million Other Funds, $30.1 million Federal Funds, and 829 positions (813.34 FTE). The budget total also includes $244 million of Other Funds Nonlimited for Clean Water State Revolving Fund loan activities and debt service. The total funds budget is $70.3 million, or 11.3%, higher than the 2021-23 legislatively adopted budget level as a result of actions taken during the 2022 session and includes 12 new positions totaling 6.35 FTE.

The General Fund increase includes two separate one-time only $15 million deposits. The first into the Zero-Emissions Incentive Fund to provide additional funding for the electric vehicle rebate program known as the Oregon Clean Vehicle Rebate Program. The second $15 million was deposited into the Medium and Heavy-Duty Electrification Fund, established in HB 4139 (2022) for a grant program supporting medium and heavy-duty zero-emission vehicle charging and fueling infrastructure projects. Both deposits include a corresponding $15 million of Other Funds expenditure limitation to expend the monies out of the fund.

Other General Fund investments across the Department's programs included:

- $517,000 General Fund to support laboratory operations. Of the total $300,000 is one-time for repair or replacement of analytical equipment and $217,000 is for a permanent full-time Principle Executive Manager E position (0.63 FTE) to aid in management and operations of the DEQ Lab.
- $484,553 General Fund for information technology costs related to DEQ's use of the State Data Center.
- $712,318 General Fund and four positions (2.00 FTE) included in SB 1567 (2022) for regulation of bulk fuels.
- $352,217 General Fund and two positions (1.26 FTE) for costs related to the Private Forest Accord established in SB 1501 (2022).
- $324,620 General Fund and two positions (1.00 FTE) for costs to administer the Environmental Justice Council and develop and maintain a mapping tool described in HB 4077 (2022).
- $190,179 General Fund for a position (0.58 FTE) to participate in emergency management exercises required by HB 4068 (2022).
- $1.9 million for previously approved salary and compensation plan adjustments.

The Department's Other Funds expenditure limitation increased by $35 million from the legislatively approved budget, largely due to the two fund deposits mentioned above, with another $4.95 million a result of salary and compensation adjustments. The respective changes to the Department's Measure 76 Lottery Funds (increased 3.7%) or Federal Funds (increased 2.0%) budgets were a result of adjustments for previously approved salary and compensation plan changes.

DEPARTMENT OF FISH AND WILDLIFE

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	32,498,172	42,202,572	47,048,279	75,447,796
Lottery Funds	7,979,626	6,433,734	6,768,156	6,886,493
Other Funds	207,957,997	217,657,742	229,202,692	239,225,932
Federal Funds	148,883,966	153,013,808	159,336,429	162,464,470
Total Funds	**$397,319,761**	**$419,307,856**	**$442,355,556**	**$484,024,691**
Positions	1,356	1,333	1,364	1,386
FTE	1,153.44	1,139.14	1,169.47	1,180.05

Overview

The Oregon Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency's mission is to "protect and enhance Oregon's fish and wildlife and their habitats for use and enjoyment by present and future generations." By law, the Department is charged with managing wildlife to prevent serious depletion of any indigenous species and with managing fish to provide the optimum economic, commercial, recreational, and aesthetic benefits. ODFW manages the state's fish and wildlife policies through three primary divisions: Fish, Wildlife, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Department of State Police, Fish and Wildlife Division.

The Fish Division consists of the Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries programs and has primary responsibility for managing fish resources within the state:

- Fish Propagation program – Produces fish through artificial propagation to augment natural production and to provide fish for sport and commercial fisheries. More than 70% of all fish caught by recreational anglers and 75% of the salmon harvested commercially are hatchery produced fish.
- Natural Production program – Manages freshwater fish, trout, steelhead, and salmon within the state's rivers, streams, and lakes. The program directs the inventory of fish populations and their habitats, conducts genetic research, assesses freshwater fisheries, develops fish conservation and management plans, manages state and federally listed fishes, operates a fish screen program, and administers angling regulations.
- Marine Resources program – Recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species.
- Interjurisdictional Fisheries program – Responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fish.

The Wildlife Division consists of the Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation programs and has primary responsibility for managing wildlife resources throughout the state:

- Wildlife Management program – Manages game species including big game, furbearers, waterfowl, and upland game birds. Biologists, with the assistance of seasonal wildlife technicians, inventory big game species, develop and implement species management plans, respond to damage complaints, conduct hunter and harvest surveys, and assist in developing hunting regulations. The Access and Habitat program is used to provide both wildlife habitat improvement and improved hunter access to private lands.
- Wildlife Habitat Resources program – Provides guidance in the agency's development of statewide goals and objectives related to the management of wildlife and their habitat. The program operates state-owned game management areas and develops projects to maintain and improve wildlife habitat.
- Wildlife Conservation program – Responsible for the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents

88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species, as required under the Oregon Endangered Species Act. The program is also responsible for creating and implementing the state's Comprehensive Wildlife Conservation Strategy and the aquatic invasive species program.

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for management of the Point-of-Sale licensing system. ODFW provides funding through a contract with the Department of State Police, Fish and Wildlife Division to provide law enforcement services to ensure compliance with laws that protect and enhance the long-term health and use of the state's fish and wildlife resources, including recreational and commercial fishing laws and regulations and hunting laws. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division of the Oregon State Police are sworn police officers and can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

The 2021-23 legislatively adopted budget, described below, also includes the establishment of a new Habitat Division within the Department. This division consists of various programs transferred from five existing divisions within the agency (Inland Fisheries, Marine and Columbia River, Wildlife Management, Wildlife Habitat Resources, and Wildlife Conservation). The total funding transferred is $18.3 million and 64 positions (59.95 FTE).

<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 was anticipated to be implemented in 2020, however the Department's revenue outlook has allowed for a delay in implementation of the final phase of the fee increase. Recreational license sales actually increased during the

COVID-19 pandemic in 2020, and current projected ending balance would indicate that the final fee increase will be necessary in January 2023.

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.

The 2020 wildfire season was one of the worst in Oregon's history, and caused significant damage to some of the Department's hatcheries, specifically, to the Rock Creek, Klamath, and Leaburg hatcheries. Rock Creek's damage was near total with all structures destroyed and replacement cost estimates are approximately $25.9 million. Klamath had around $5.7 million in damages, with Leaburg sustaining damages of around $700,000. The Department is still actively pursuing insurance claims for all State-owned property through DAS Risk Management and disaster relief from FEMA. The timetable for potential federal disaster funding or insurance payouts is still unknown but advanced payments were anticipated to be distributed in late 2021.

Legislatively Adopted Budget

The Department of Fish and Wildlife 2021-23 adopted budget totals $442.4 million, which includes $47 million General Fund, $6.8 million Measure 76 Lottery Funds, $229.2 million Other Funds, $159.3 million Federal Funds, and 1,364 positions (1,169.47 FTE). The Department's total funds budget is an 11.3% increase from 2019-21 levels.

General Fund support is $14.6 million, or 44.8%, higher than approved 2019-21 budget levels. New General Fund investments include:

- $1.5 million to establish a new Habitat Division, including seven new permanent full-time positions. Additionally, each of the other divisions of the agency transferred various programs and staff to this new division.
- $700,248 to establish three permanent positions to assist with the Willamette Basin reallocation effort. The Willamette Basin Reallocation is part of the federal Water Resources Development Act of 2020 that involves the reallocation of stored water in thirteen federal reservoirs in the basin. ODFW will enter a multi-year effort in conjunction with state, federal and local partners, to advance state and federal priority goals for fish, wildlife, habitat recovery and climate change resiliency. This is part of a larger statewide investment in water-related activities.
- $472,885 for two positions to ensure ODFW's ability to engage in and develop solutions to urgent water management issues in the state and in local water planning efforts. This is part of a larger statewide investment in water-related activities.
- $545,000 of one-time funding for deposit into the Conservation and Recreation Fund established by HB 2829 (2019) in order to match expected donations received into the fund during the 2019-21 biennium. Additionally, $1 million General Fund was set aside in the Emergency Board through HB 2171 (2021) to match donations received in 2021-23.
- $585,056 for two permanent positions for the Western Oregon Streams Restoration program. This will restore the programs capacity that was reduced in 2017 due to General Fund shortfalls.
- $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.
- $446,579 of one-time funds for the payment of debt service associated with Article XI-Q General Obligation bonds to finance $5 million of capital improvement projects on non-hatchery related facilities.

Additionally, HB 3114 provided $470,000 of one-time General Fund to perform a shellfish and estuarine assessment of the Oregon coast and to conduct estuary mapping for long-term documentation of ocean acidification impacts.

Other Funds expenditure limitation in the 2021-23 legislatively adopted budget is $21 million, or 10.2%, higher than 2019-21. Increases to Other Funds expenditure limitation include the following:

- $5 million for funding of fish screens and fish passage projects. This funding will be through the federal American Rescue Plan Act Coronavirus State Fiscal Recovery Fund monies received by the Department of Administrative Services as federal funds and transferred to ODFW as Other Funds.
- $5 million for funding capital improvement projects of non-hatchery related facilities as part of an Article XI-Q General Obligation bond sale. The expenditure limitation was provided in SB 5506 (2021).
- $2.8 million for repairs to culverts that are used for fish passage. This is part of an agreement with the Department of Transportation to prioritize road crossings.
- $500,000 million toward the acquisition of the Minam Property in Wallowa County and part of Union County. The corresponding revenue is from timber harvest sales on ODFW properties.
- $275,000 for a Recreational Fisheries Project Coordinator to increase staff capacity to plan, prioritize, design, and implement projects at ODFW owned fishing sites.
- $269,000 to continue a position assisting with the Klamath River basin anadromous fish reintroduction plan.
- $222,012 to continue a position providing technical support to model stream flows and fish distributions.

Measure 76 Lottery Funds were reduced by 15%, down about $1.2 million from 2019-21. Federal Funds expenditure limitation is 7% higher than 2019-21 due largely to an increase in the Pittman-Robertson apportionment, including $3.1 million for purchase of the Minam Property, as well as 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.

Finally, the 2021-23 budget includes a budget note directing the Department to report on the Department's analysis around the rebuilding of Rock Creek Hatchery due to fire damage, and any due diligence conducted by the Department prior to taking ownership of the Leaburg Hatchery from the US Army Corps of Engineers. This report is due during the 2022 legislative session.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for the Department totals $484 million, which includes $75 million General Fund, $6.9 million Measure 76 Lottery Funds, $239.2 million Other Funds, $162.5 million Federal Funds, and 1,386 positions (1,180.05 FTE). The Department's total funds budget is an 9.4% increase from the legislatively adopted budget described above. Of the approximately $41 million increase, $28 million is General Fund, $10 million is Other Funds, and $3 million is Federal Funds. The Federal Funds and small amount of Measure 76 Lottery Funds are attributable to increases for previously approved salary and compensation adjustments.

$15.6 million of the $28 million General Fund increase to the Department's budget, was part of a statewide drought resiliency package. Included in this funding is $8 million for fish passage barrier removal, $5 million for deposit into the Oregon Conservation and Recreation Fund established in HB 2829 (2019), and $2.6 million for activities to improve drought resiliency including river temperature and streamflow monitoring. To accomplish this work, ODFW will establish seven limited duration positions (3.33 FTE). The General Fund provided for the drought resilience package is one-time, except for $800,000 earmarked for gauges. Finally, $6 million of Other Funds expenditure limitation was approved for funds deposited into the Oregon Conservation and Recreation Fund, including the $5 million mentioned above and $1 million from American Rescue Plan Act Coronavirus State Fiscal Recovery Fund monies designated in HB 5006 (2021).

Additionally, SB 1501 (2022) implements the Private Forest Accord (PFA) and with it appropriates $11.6 million General Fund and establishes 15 full-time positions (7.25 FTE) in the Department. Of this total, $10 million is for deposit into the Private Forest Accord Mitigation Subaccount to be used for a grant program designed to fund projects that mitigate the impact of forest practices and that will help improve riparian areas. Of the fifteen positions provided, 12 are permanent to work on various aspects of the PFA including developing and managing stream classification data, updating the Forest Activity Electronic Reporting and Notice System (FERNS), modelling streamflow's, conducting stream surveys, required management of beaver populations, and operate the PFA grant program established by the measure.

DEPARTMENT OF FORESTRY

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	168,122,949	93,794,837	167,377,154	230,245,653
Lottery Funds	2,543,451	2,564,210	2,564,210	2,564,210
Other Funds	394,655,610	281,749,690	310,849,227	397,503,110
Federal Funds	37,766,957	37,632,564	41,395,153	41,779,100
Total Funds	**603,088,967**	**415,741,301**	**522,185,744**	**672,092,073**
Positions	1,194	1,149	1,335	1,393
FTE	862.62	847.71	1,006.07	1,027.03

Overview

The Oregon Department of Forestry (ODF) was established in 1911. ODF is directed by the State Forester who is appointed by the State Board of Forestry. The Board's seven members are nominated by the Governor and confirmed by the Senate. ODF has four operating programs: Fire Protection, Federal Forest Restoration, 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.

The Federal Forest Restoration program was established to increase the pace, scale, and quality of restoration on Oregon's federal forestlands. The program works with federal field staff to identify and develop project-level agreements to implement Good Neighbor Authority projects. This is the first biennium that the program is budgeted as a stand-alone program.

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.

Budget Environment

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.

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 fire protection districts were at one time operated as independent organizations by the private landowners 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.

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.

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 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

Water quality issues are anticipated to be an ongoing issue during the biennium. A January 2015 finding by the National Oceanic and Atmospheric Administration and the U.S. Environmental Protection Agency regarding the multiple state-agency plan for the non-point source water quality program resulted in the withholding of certain federal funding under the Coastal Zone Management Act. The reduced grant funding for the Department of Land Conservation and Development and the Oregon Department of Environmental Quality in the 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.

Legislatively Adopted Budget

The 2021-23 total funds budget for the Department of Forestry is $522.2 million and supports 1,335 positions (1,006.07 FTE). This amount is $80.9 million less than the 2019-21 legislatively approved budget, however, the 2019-21 legislatively approved budget included $185 million in emergency fire costs. After removing the extraordinary items, including one-time funding provided in 2019-21, the net operational budget change between the 2017-19 biennium and the 2019-21 biennium is an increase of roughly $122.2 million, or 30%.

Legislatively Approved Budget

The legislatively approved budget for the Department of Forestry totals $672.1 million for the 2021-23 biennium. The budget increased by $149.9 million (or 28.7%) from the 2021-23 legislatively adopted budget and includes an increase of 58 positions (20.96 FTE), for a total of 1393 positions (1027.03 FTE) for the biennium.

Of the total budget increase, $46.3 million General Fund and $78.2 million Other Funds are for the payment of costs associated with the 2021 wildfire season. A General Fund appropriation of $14 million and an increase in the Other Funds expenditure limitation for the Department of Forestry were included in SB 1501 (2022) for costs related to the implementation of the Private Forest Accord, including the establishment of 58 positions (20.96 FTE). Adjustments were also made for previously approved statewide compensation plan changes.

Agency Administration and Centralized Business Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	22,041,759	15,779,780	18,799,887	18,877,642
Lottery Funds	2,543,451	2,564,210	2,564,210	2,564,210
Other Funds	66,706,494	73,455,535	88,794,881	91,334,651
Federal Funds	4,666,940	2,546,614	2,545,476	2,599,535
Total Funds	**95,958,644**	**94,346,139**	**112,704,454**	**115,376,038**
Positions	142	130	172	177
FTE	138.99	130.48	171.98	173.94

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 – 140 positions (139.27 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 – 32 positions (32.71 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.

<u>Revenue Sources and Relationships</u>

The centralized services programs are primarily 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 primary exception to this process is in the Debt Service program where General Fund or Lottery Funds are appropriated directly.

General Fund other than debt service in the program in prior biennia was primarily associated with the Federal Forests Restoration program, which was operated as a sub-program within the Agency Administration Division until it was elevated to its own division in the current biennium. The General Fund other than debt service in the program for the current biennium is attributable to increased staffing capacity that was continued using the same funding source in the agency's ongoing budget as was authorized by the Emergency Board during its January 2021 meeting and certain costs associated with contractual relationships and ongoing implementation of recommendations by Macias, Gini, and O'Connell (MGO) consulting.

Agency Administration regularly performs a "widget study" for the purpose of allocating the costs of the program. 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 54.5%, Private Forests 16.4%, State Forests 23.5%, Equipment Pool 4.6%, and Federal Forest Restoration 1%. 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 landowners; the General Fund and public landowners are charged instead. ODF estimates that roughly 52.77% of the pro-rata revenue agency-wide is from the General Fund.

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 (11%), Lottery Funds (77%), and Other Funds (12%). 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’ 2021-23 total funds budget is $112.7 million and includes 172 positions (171.98 FTE). The net change from the 2019-21 legislatively approved budget is a $16.74 million, or 17.4%, increase. The General Fund budget for the program totals $18.8 million, which is a $3.2 million, or 14.7%, decrease from the 2019-21 legislatively approved budget. Of the General Fund total, $16.14 million is for debt service obligations.

The budget includes an adjustment for Microsoft 365 licenses costs that are being consolidated within Enterprise Information Services and provided as service to agencies paid through state government surcharge assessments from the Department of Administrative Services. That charge is reflected in the agency’s current service level budget. Therefore, this adjustment makes a corresponding reduction in the previously budgeted expenditure category used to record individual licensing costs of $813,326 Other Funds.

During the January 2021 meeting of the Emergency Board, several budgetary adjustments were provided for the Department of Forestry to address the continued increase in wildfire severity through capacity building in the agency's programs. Several of these initiatives were carried forward in the agency's ongoing budget. The Legislature authorized the establishment of a budget manager position (1.00 FTE), an incident business analyst position (1.00 FTE), and contracts and agreements specialist position (1.00 FTE) to provide direct support of finance and contracting functions of the fire protection program and other operating divisions at a cost of $715,922.

Three positions (3.00 FTE) were established to provide direct financial and procurement support for the expanded capacity of the program in the Federal Forests Restoration division. Two of the positions are procurement and contract specialists, the third is an accounting technician. Total package costs of $577,265 Other Funds are funded via the administrative pro-rate charges.

A Safety Specialist position (1.00 FTE) was established to coordinate statewide safety programs for the agency. Specifically, the position supports the agency's critical life safety communication and location tracking for firefighters and emergency response efforts through operation and maintenance of wireless communication systems, equipment, resources and infrastructure. This position had been approved as part of Emergency Board actions in January 2021, but had been established as a limited duration position in the Fire Protection division. Establishing the permanent position in the Agency Administration division better aligns the position to its agency-wide function.

SB 762 (2021) requires ODF to develop programs to reduce overall wildfire risk in Oregon that includes increasing overall wildfire response capacity, landscape restoration work, development and maintenance of a statewide map of wildfire risk including wildland interface fire protection information, clarification of rules for prescribed fire, establishment of rules establishing baseline levels of wildfire protection for non-protected ODF lands, and providing support to the Wildfire Programs Advisory Council. To meet these obligations, six positions (6.00 FTE), of which two are limited duration, were authorized to be established in the Agency Administration program at a biennial cost of $1,467,358 Other Funds. An additional two positions (2.00 FTE) were established in the Equipment Pool program at a cost of $474,884 Other Funds.

A General Fund appropriation was made to the Department of Forestry in the prior biennium for the cost of contracted consulting services to review operational issues related to the processing and collection of accounts receivable at ODF, assist the agency in its processing and collection of accounts receivables, and to make recommendations for changes to the agency and its processes to ensure the agency can adequately and efficiently account for, and collect receivables, and provide accurate cash-flow estimates. Those recommendations were presented during the agency's budget hearings and initial work to implement those recommendations was affected by provisions in the agency's legislatively adopted budget.

Expenditure limitation and the authorization to establish eight positions (7.50 FTE) that are transferred to Agency Administration from the Fire Protection division, as recommended MGO consulting, was approved. The positions provide accounting and financial functions that directly support the Fire Protection division. Expenditure limitation and the authorization to establish four new permanent, full-time positions (4.00 FTE), three regional financial managers and one additional accounts receivable specialist for finance activities, was also provided. These positions will ensure enhanced financial oversight for the Fire Protection program and the agency overall. A reclassification of two existing positions in the Agency Administration division is also included due to expanded position responsibilities. Adjustments also included the establishment of three limited-duration positions to provide dedicated administration of the agency's implementation of recommendations made by MGO. These positions include a Project Manager, Operations and Policy Analyst, and a Fiscal Analyst. A $681,627 General Fund appropriation to support these positions is included in the budget. In addition, $500,000 General Fund was provided for the agency to continue the contractual relationship with MGO consulting to provide direct implementation technical assistance, oversight, and reporting as directed by the following budget note.

Budget Note

The Department of Forestry is directed to use funding provided for the continuance of contracted services from Macias, Gini, and O'Connell (MGO) to enter into a contract for the provision of direct technical assistance and oversight of the implementation of recommendations made by MGO and for interim and final reports by MGO to the Board of Forestry and the Joint Committee on Ways and means on the agency's implementation of the MGO recommendations. Specific implementation timelines must be developed with a goal of full implementation of the recommendations by the end of the biennium. The first interim report is to be provided no later than January 31, 2022.

In addition to the positions that are directly tied to the recommendations made by MGO, the budget continues work to align and enhance administrative functions by streamlining processes and providing agency-wide data management services through the establishment seven positions (7.00 FTE) to address outdated processes, information systems, and agency-wide data management. Total positions costs of $1,468,168 Other Funds will be received from internal assessments of Department programs via the administrative pro-rate.

The budget addresses capacity needs to further agency strategies on diversity, equity, inclusion, environmental justice, sustainability, and Government-to-Government Leadership initiatives by including the establishment of two positions (2.00 FTE). A half-time policy analyst will provide the coordination and integration of diversity, equity, and inclusion and environmental justice strategies into department culture. A half-time policy analyst will serve as the agency's sustainability coordinator. A full-time policy analyst will manage the agency's government to government initiatives. Other Funds of $452,433 to fund the positions is derived from internal assessments of Department programs via the administrative pro-rate.

The Legislature provided expenditure limitation of $452,433 Other Funds and established of two limited-duration positions (2.00 FTE) to address the workload related to the reconstruction of the agency's damaged and destroyed infrastructure during the 2020 wildfire season. This continues the funding and position authority that was authorized by the Emergency Board in December 2020.

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 first stage of the replacement of a facility in Toledo that houses both Fire Protection and Private Forests programs. A portion of the bonds to fund the construction of the building were issued during the 2017-19 biennium with a par-value totaling $900,000, the remaining $2,932,965 was funded with bond proceeds from bonds authorized and issued in the 2019-21 biennium. For the second stage of the project, General Obligation bonds were authorized for issuance during the 2021-23 biennium to produce net proceeds of $1,632,842. The agency was provided corresponding six-year Capital Construction Other Funds expenditure limitation as part of the legislatively approved budget for the biennium. Additionally, an increase in expenditure limitation of $49,196 Other Funds was approved for the payment of bond issuance costs. The General Fund appropriation to for the Debt Service program is increased by $105,260 and the Other Funds expenditure limitation is increased by $146,257 for the payment of debt service on the bonds.

Additional General Obligation bonds that were authorized to be issued in the 2021-23 biennium are anticipated to produce $4,820,722 in net proceeds to address maintenance need of facilities owned by the Department of Forestry. This amount represents 2% of the replacement value of these facilities. An increase in expenditure limitation of $4,820,722 Other Funds Capital Improvement, for the Capital Improvement program for the expenditure of the bond proceeds is included in the budget. An increase in the Other Funds expenditure limitation for the Agency Administration program of $64,229 was approved for the cost of bond issuance. For the Debt Service program, the General Fund appropriation was increased by $260,395 and expenditure limitation was increased by $255,807 for the payment of debt service related to the bonds.

Legislatively Approved Budget
The budgets for the programs within the Agency Administration and Centralized Business Services divisions increase by $2.7 million or 2.37% from the legislatively adopted budget. These increases include personal services cost adjustments for statewide labor contracts as negotiated by the Governor ($1.7 million), debt service budget reductions, and increased Other Funds expenditure authority of $1 million for the implementation of SB 1501 (2022), The Private Forest Accord. The PFA established five (four permanent and one limited duration) positions to provide administrative support for the expanded activities within the Private Forests Division. Additionally, just under $1 million was included for the Equipment Pool program to purchase up to 24 vehicles for new field positions and new office staff implementing the PFA.

Federal Forests Restoration

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	3,633,598	36,529,127	36,830,342
Other Funds	--	564,203	554,979	557,618
Federal Funds	--	863,375	4,702,216	4,733,025
Total Funds	**--**	**5,061,176**	**41,786,322**	**42,120,985**
Positions	--	11	51	51
FTE	--	9.67	49.67	49.67

Program Overview
The Federal Forest Restoration (FFR) program was established to increase the pace, scale, and quality of restoration on Oregon's federal forestlands. The program works with federal field staff to identify and develop project-level agreements to implement Good Neighbor Authority projects. The program includes support of Oregon's forest collaboratives, National Environmental Policy Act (NEPA) planning for federal land restoration projects, field staff support for thinning and harvest project preparation and layout on federal lands. Additionally, the program affects certain projects funded by federal grants for fire mitigation, fuel reduction, and landscape scale restoration on both private and public lands.

The FFR program was housed as a sub-program of the Agency Administration program in prior biennia and maintains a close relationship with the Partnership and Planning office which is the primary administrator of the Good Neighbor agreement.

Revenue Sources and Relationships
The program had originally been conceived as a vehicle for the implementation of Good Neighbor Authority program and support for forest collaboratives with the intent of increasing economic development through reducing barriers to federal timber harvest projects. As such, the Legislature provided $2.9 million Lottery Funds in the 2013-15 biennium and an additional $5 million Lottery Funds in the 2015-17 biennium to the program. Both of these were provided as one-time only funding.

For the 2017-19 biennium, the Legislature made the funding for the program ongoing and provided a $3 million General Fund appropriation along with $692,070 Other Funds expenditure limitation, and $510,798 Federal Funds expenditure limitation. Total funding of $4,202,868 was split between collaborative group support, state/federal partnership, and program management and administration. Federal Fund and Other Fund expenditure limitation was provided to implement projects using the Good Neighbor Authority. The Other Funds revenue in the program is from anticipated sales of federal timber; the Federal Funds revenue from cooperative agreements with the US Forest Service (USFS). Up to $500,000 General Fund of the funding was to be used to provide grants to collaborative groups as administered by the Oregon Watershed Enhancement Board.

Budget Environment
The ongoing budget for the program remains somewhat dependent on the availability of federal funding to continue the payment of contracted services to the state under the Good Neighbor Authority agreement.

Legislatively Adopted Budget
Action was taken by the Emergency Board during the January 2021 meeting to expand the work done by the program in response to the 2020 wildfire season. This was continued and expanded upon by the Legislature for the 2021-23 biennium in the agency's budget bill through increased capacity of the program and funding to increase the pace and scale of the restoration and fuels reduction projects that can be accomplished by the program. Nineteen permanent, full-time positions (19.00 FTE) were established for the program generally and nine limited-duration positions (9.00 FTE) that provide contracting and project management capacity for anticipated additional state-supported fuels reduction projects were also included. $3 million in Federal Funds expenditure limitation is included for anticipated federal support of project activities.

SB 762 (2021) made further enhancements to the program by adding an additional 11 limited duration positions (11.00 FTE) and one permanent position (1.00 FTE) to the program to support increased overall wildfire response capacity, landscape restoration work, development and maintenance of a statewide map of wildfire risk including wildland interface fire protection information, clarification of rules for prescribed fire, establishment of rules establishing baseline levels of wildfire protection for non-protected ODF lands, and providing support to the Wildfire Programs Advisory Council. For the costs associated with the additional positions, the program was provided an appropriation of $2.7 million. Additional General Fund of $18.3 million was provided for the implementation of hazardous fuels reduction on public and private forestlands and rangelands. $2 million General Fund was included in the budget for pass-through financial support to private fire protection associations to implement the bill's requirements in those districts. Funding of $5 million General Fund was also included on a one-time basis for the implementation of an assistance program for small woodland owners for fire hazard reduction projects on those lands.

Legislatively Approved Budget
The budget for the Federal Forest Restoration division increased by $0.33 million or 0.8% from the legislatively adopted budget. The increase is the result of personal services cost adjustments for statewide labor contracts as previously negotiated by the Governor.

Fire Protection

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	125,494,286	55,174,570	84,626,063	132,507,228
Other Funds	205,132,034	81,132,284	94,456,499	174,974,482
Federal Funds	17,924,645	18,636,498	18,574,047	18,743,941
Total Funds	**348,550,965**	**154,943,352**	**197,656,609**	**326,225,651**
Positions	712	676	776	776
FTE	402.88	387.33	459.23	459.23

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 centralized "headquarters" 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 Oregon Forest Land Protection Fund (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. 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. 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.

Statute defines the maximum expenditure cap for severity resource activities from the OFLPF as $3 million or 3/5ths of the total annual expenditures for these activities, whichever is less. The OFLPF maximum share of severity resource funding in the amount of $6 million is included in the agency's budget. Statute does not define the General Fund maximum contribution to severity resources. In past biennia, the Legislature has set-aside $4 million ($2 million per fire season) for severity resources in a special purpose appropriation to the Emergency Board. For the 2021-23 biennium, the Legislature increased the special purpose appropriation amount to $14 million.

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 is 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 roughly $11 million annually. 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 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).
- Assessment of $3.75 per lot (out of the $18.75 minimum assessed for forest patrol).
- Surcharge of $47.50 for each improved tax lot.
- Interest Earnings.

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 $18.6 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.

Budget Environment

Fire suppression efforts and costs are driven by factors that include forest fuel loads, forest health (insect and disease damage), weather (drought and lightning storms), and human behavior and cannot be predicted with certainty.

The 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.

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).

For the 2020 fire season, total premium costs of $4 million were funded $2 million from the OFLPF and $2 million from the General Fund. Both of these amounts were part of the agency’s biennial budget for 2019-21, however only $1.79 million of the General Fund amount was specifically budgeted, the remaining portion was allocated from other budgeted expenditure categories. A $3.82 million General Fund appropriation was included in SB 5518

(2021) for the 2021 fire season insurance premium cost that totaled $4.13 million. The remaining $315,000 was paid from the OFLPF.

<u>Legislatively Adopted Budget</u>
The Fire Protection Division 2021-23 total funds budget is $197.7 million and includes 776 positions (459.23 FTE). After accounting for $184.3 million in non-budgeted emergency fire costs in the 2019-21 biennium, this amount represents a $47.6 million, or 31% increase from the 2019-21 legislatively approved budget. In addition to increased General Fund appropriations for the payment of allocated pro-rata charges for expanded services from the Agency Administration program, the approved budget contains two significant investments to increase the fire suppression capacity of the agency.

The agency's primary budget bill, SB 5518, continued enhancements to the agency's capacity that were authorized by the Emergency Board in January of 2021. In the Fire Protection program, total funding of $2,018,553 General Fund and $3,191,693 Other Funds was provided to add 17 new positions (16.75 FTE). A Forest Manager 2 position (0.75 FTE) was established in the program via a transfer from the State Forests program. A second deputy Fire Program Division Chief (1.00 FTE) was added to ensure appropriate oversight and accountability and manage the program's increasing workload. A lead investigator position and three area investigator positions (4.00 FTE) were established to address the increased investigation and recovery workload for responsible party cost recovery fires. These positions also act as fire prevention coordinators to aid in the implementation of prevention programs throughout the state. Three aviation coordinator positions were established (3.00 FTE) to provide ground support, crew member support, training, and financial tracking. Three area training coordinator positions (3.00 FTE) were established to supplement the agency's single current statewide fire training coordinator. A GIS coordinator ISS 5 position (1.00 FTE) was added to expand the agency's capacity for fire risk mapping and integrating multiple data inputs to the agency's GIS tools. A prescribed fire coordinator position (1.00 FTE) was established to work on the development of a prescribed burn manager program. A Fire Operations Specialist (1.00 FTE) was added to support general operational workload demands agencywide. A NRS 3 position (1.00 FTE) was established in the program to develop a variation on the rangeland fire protection model that could be applied to lands outside of the ODF protected lands. Additionally, a position was established (1.00 FTE) to address the increased smoke management issues resulting from increased prescribed burning and wildfires. Total package funding is inclusive of position associated costs, capital outlay for automobiles and associated equipment, and funding for centralized administrative functions.

SB 762 required ODF to develop programs to reduce overall wildfire risk in Oregon that includes increasing overall wildfire response capacity, landscape restoration work, development and maintenance of a statewide map of wildfire risk including wildland interface fire protection information, clarification of rules for prescribed fire, establishment of rules establishing baseline levels of wildfire protection for non-protected ODF lands, expansion of wildfire detection camera systems, and providing support to the Wildfire Programs Advisory Council. Specifically, for the Fire Protection program, implementation of the bill focused on the increased wildfire response capacity. The measure authorized the establishment of 88 new positions (60.4 FTE) for the program. While the individual positions were not defined by the bill, the agency anticipates that 19 of these positions will be permanent, full-time positions and the remainder will be seasonal positions. 103 existing positions will be extended by one to 24 months for a total of 17.78 FTE. A General Fund appropriation of $10,611,235 and Other Funds expenditure limitation is included in the program's budget for this work. A supplemental one-time appropriation of $15 million General Fund was provided to offset private landowner assessment rates in the 2021-23 biennium associated with the expanded capacity.

In addition to the capacity investments, the Legislature provided an increase in the General Fund appropriation to the Fire Protection division of $666,937 and authorized the establishment of three positions (2.25 FTE) to support rangeland protection associations. SB 590 (2021) expanded the definition of rangelands to include those lands that are used primarily for cultivating crops. Including these lands will allow for additional associations to be formed, providing access to assistance programs from the State Forester with organizing, training, acquisition of equipment and insurance obligations.

A special purpose appropriation to the Emergency Board of $14 million was added for allocation to the Department of Forestry as needed for a portion of the net cost associated with severity resources incurred during the 2021-23 biennium. The net cost is the residual cost of severity resources after accounting for reimbursements or payments from any other source, including, but not limited to, reimbursement from any federal, state, or local government entity, insurance policy claims, and responsible party recoveries. This amount is a $10 million increase in funding provided in the prior biennium.

Legislatively Approved Budget

The budget for the Fire Protection division increased by $47.9 million General Fund, $80.5 million Other Funds, and $169,894 Federal Funds from the legislatively adopted budget. The all-funds increase of $128.6 million represents an increase of 65% from the legislatively adopted budget.

The increase includes personal services cost adjustments for statewide labor contracts as negotiated by the Governor ($1.6 million General Fund, $2.3 million Other Funds, and $0.17 million Federal Funds), and budgetary capacity for costs associated with the 2021 wildfire season ($46.2 million General Fund and $78.2 million Other Funds).

State Forests

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	5,000	--	--	--
Other Funds	109,117,608	112,733,320	112,598,383	114,241,583
Federal Funds	928,679	948,483	947,608	947,608
Total Funds	**110,051,287**	**113,681,803**	**113,545,991**	**115,189,191**
Positions	216	220	213	213
FTE	205.92	210.82	210.05	210.05

Program Overview

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 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. It is notable however, that the prisoner work program was suspended indefinitely following the alleged attack of two women by an inmate that escaped from a forest crew in the Spring of 2021.

Revenue Sources and Relationships

The State Forest program is funded primarily by Other Funds that are produced by the sale of forest products on Oregon Board of Forestry lands and secondarily by management fees for Common School Trust lands. Federal funds revenue included in the budget is generally in the form of grant funds, including funding for the purchase of certain lands in the Gilchrist State Forest.

Revenue from the sale of forest products produced and sold on Board of Forestry lands is divided according to a statutorily defined formula between the county in which the subject lands are situated and the State Forests program. Generally, this formula provides 36.25% of the revenue generated for the operation of the State Forests program, including the allocated costs of fire protection. The remaining 63.75% is distributed to the counties and local taxing districts where the forestland is located. The estimated total revenue in the 2021-23 biennium from forest product sales on Oregon Board of Forestry forestland is $262.6 million.

Revenues from harvests on Common School Trust forestland managed by the State Forests Division are anticipated to be $8.3 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 $4.8 million in the 2021-23 biennium. This provides $3.5 million in net income to the Common School Fund.

The Oregon Parks and Recreation Department transfers roughly $1.8 million Other Funds to the State Forests program for trail and recreational opportunity enhancements from permit fees charged to users of All Terrain Vehicles.

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 oft-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.

Legislatively Adopted Budget

The State Forests program 2021-23 total funds budget is $113,545,991 and includes 213 positions (210.05 FTE). This is a $3.5 million, or 3.2%, increase from the 2019-21 legislatively approved budget.

The legislatively adopted budget reflects minor ongoing adjustments to the agency's current service level and adjustments to Other Funds intra-agency transfers to support related pro-rata charges for enhancements authorized in the Agency Administration program.

The budget eliminated a Forest Manager 2 position (0.75 FTE) and moved it to the Fire Protection division. Three existing positions were extended by a total of 35 months (1.46 FTE) the net of all these actions result in a reduction of $27,756 Other Funds for the program.

Legislatively Approved Budget

The budget for the State Forests division increased by $1.6 million or 1.5% from the legislatively adopted budget. The increase is due to personal services cost adjustments for statewide labor contracts as negotiated by the Governor.

Private Forests

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	20,581,904	19,206,889	27,422,077	42,030,441
Other Funds	13,699,474	13,864,348	14,444,485	16,394,776
Federal Funds	14,246,693	14,637,594	14,625,806	14,754,991
Total Funds	**48,528,071**	**47,708,831**	**56,492,368**	**73,180,208**
Positions	124	118	123	176
FTE	114.83	110.89	115.14	134.14

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, has been historically funded by a combination of 60% General Fund and 40% Other Funds from the Forest Products Harvest Tax (FPHT) as that portion of the FPHT that is allocated to the administration of the Forest Practices Act is statutorily limited to funding no more than 40% of the Act. The FPHT is not a single rate but is an amalgamation of multiple rates delineated in statute under ORS 321.015 and ORS 321.017. The portion of the FPHT that funds the Forest Practices Act is applicable for only a two calendar-year period that has historically been advanced by two years each long legislative session. This did not happen during the 2021 legislative session and, therefore, that portion of the tax will no longer be applicable after December 31, 2021.

The budget for the program sets this aside and assumes a normal 60/40 split between the General Fund and the FPHT in anticipation of a resolution in the 2022 legislative session that either continues the tax or substitutes an alternate funding source to replace the lost revenue. If no resolution is found, the agency will need to take appropriate actions to reduce expenditures to meet available funding. The impact of this will be realized disproportionally in the second year of the biennium as the current tax revenues will continue to be received by the agency through the third and possibly the fourth quarter of the biennium due to the lag between the application of the tax and actual collections.

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	8.4290	$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	6.7599	$9,856,759
2021-23	7.1127	TBD

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 harvest and processing of softwood lumber in Oregon slowed significantly in the prior biennium due to the COVID-19 pandemic, but the economy, and timber harvest rates are expected to continue to recover and expand throughout the 2021-23 biennium. The 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 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 2021-23 total funds budget is $56,492,368 and includes 123 positions (115.14 FTE). This amount is an 16.4% increase from the 2019-21 legislatively approved budget. The General Fund budget for the agency totals $27,422,077, a 33.2% increase from the 2019-21 budget.

The legislatively adopted budget reflects minor ongoing adjustments to the agency's current service level and adjustments to General Fund support related to pro-rata charges for enhancements authorized in the Agency Administration program.

Two significant one-time General Fund investments were included in the budget. As in past biennia, the Legislature provided a supplemental General Fund appropriation of $1.7 million to continue the activities related to slowing or stopping the spread of Sudden Oak Death (Phytophthora Ramorum) in Oregon and a $5 million General Fund appropriation was made to allow the agency to provide grants for the purpose of developing tree seedling capacity at nurseries to increase the supply of tree seedlings for replanting needs due to the 2020 wildfire season.

The division's budget also includes $686,300 General Fund, $457,530 Other Funds expenditure limitation, and the establishment of three permanent full-time positions (3.00 FTE). The three positions, a riparian and aquatic monitoring specialist, a forest roads specialist, and a geotechnical specialist, all support the administration of the Forest Practices Act, ensure sound forest management, ecological protection, and provide technical assistance to forest landowners.

An appropriation of $555,374 General Fund, expenditure limitation of $137,743 Other Funds and the authorization for the establishment of one limited-duration project manager position (0.25 FTE) and one permanent pesticide application program administrator position (1.00 FTE) were also included in the budget to continue upgrades and enhancements to the Department's forest reporting and notification system as required by SB 1602 (2020 first special session).

Legislatively Approved Budget

The budget for the Private Forests division increased by $14.6 million General Fund, $1.95 million Other Funds, and $129,185 Federal Funds from the legislatively adopted budget. These increases represent a 29.5% increase over all fund types.

Of the total increase is, $1.1 million, all-funds, is due to personal services cost adjustments for previously approved statewide compensation plan changes. The remaining $14 million General Fund and $1.6 million Other Fund are for costs associated with the implementation of SB 1501 (2022) the Private Forest Accord. 53 new positions (19.00 FTE) were established under SB 1501 in the Private Forest program.

SB 1501 directs ODF to enact a single rulemaking package consistent with the Private Forest Accord (PFA) agreements, as well as provide landslide modeling, propose a habitat conservation plan, create a Small Forestland

Owners Assistance Office and provide grants to small forestland owners, establish an adaptive management program, conduct inspections to assess compliance with the FPA, adopt rules regarding pesticide application, and provide various reports to the Legislative Assembly about implementation of the measure.

In addition to the five positions established in the Agency Administration program, 29 (27 permanent and two limited duration) will be used to create the Small Forestland Owners Assistance Office to support and promote implementation of financial incentives and technical assistance programs, provide field assistance to small landowners with compliance and grant programs, and provide program management, administrative and technical support.

The remaining 24 positions will provide support to implement other requirements contained in the measure. The positions established to conduct this work include: five positions (one permanent and four limited duration) to work on GIS, Forest Activity Electronic Reporting and Notice System (FERNS) updates, and other IT development; one permanent position to coordinate federal funding for PFA Report Implementation; three permanent positions for work related to forest road inventory; one permanent position to facilitate the Adaptive Management Program Committee; three permanent compliance positions; six permanent positions to work in enforcement, including development of training and outreach; and five positions (four permanent and one limited-duration) to work on rulemaking and policy implementation.

In addition to the positions, other costs included in the bill include:
- $2 million to contract for the habitat conservation plan.
- $2 million to contract for landslide modeling.
- $2.5 million to contract for LIDAR analysis in areas that do not have existing data.
- $1 million for hydrology modeling.
- $1 million to purchase 24 vehicles for the new field positions and new office staff.
- $350,000 for compliance monitoring.
- $1.7 million for technology updates, including for FERNS, GIS, and other work.

DEPARTMENT OF GEOLOGY AND MINERAL INDUSTRIES

Analyst: Terpening

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	5,424,733	5,945,144	6,339,401	6,444,037
Other Funds	6,416,063	6,349,951	6,689,178	6,753,317
Federal Funds	5,808,958	6,308,753	5,772,087	5,765,844
Total Funds	**$17,649,754**	**$18,603,848**	**$18,800,666**	**$18,963,198**
Positions	41	39	35	35
FTE	39.33	38.92	34.67	34.67

Overview

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geoscientific information. DOGAMI has two program areas, Geologic Survey and Services and Mineral Land Regulation and Reclamation. Department headquarters are in Portland, with the Mineral Land Reclamation Program located in Albany. 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 historically 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, most of which are for aggregate mining. The fees related to mining operations were increased by the 2015 Legislative Assembly and then again in the second special session of 2020. 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.

Over the previous several biennia, the Department had problems effectively evaluating potential projects and identifying costs involved. This led to project cost overruns for added project deliverables that are believed to be beneficial to the Department, stakeholders, or the public, but which were not identified within the scope of the project agreement and therefore had to 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, bringing into question once again, the viability of the Department's current structure and funding mechanism.

This uncertainty resulted in the Department being provided with a one-year budget for the 2019-21 biennium and the elimination of five positions in order to generate sufficient General Fund to support two new financial positions within the agency as well as reclassify an existing financial position. These new positions and the reclassification of another position, provided additional financial, grant and project contract oversight to the Department to eliminate the project overspending.

Additionally, direction was provided via budget note for 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. The Governor's report recommended that the agency receive a second-year budget for 2019-21 and remain intact, with further evaluation as the 2021-23 Governor's Budget (GB) is being developed. While the 2021-23 GB did ultimately recommended DOGAMI be eliminated as an agency, with parts of the GS&S program moving to the Department of Land Conservation and Development and the MLRR program moving to the Department of Environmental Quality, this concept was rejected by the Legislature and the Department remained intact in 2021-23, although further changes were made to the GS&S program in hopes of ensuring its financial viability going forward.

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.

The 2019-21 legislatively adopted budget included budget note direction for the MLRR program to review the projected revenue and expenditures for the MLRR program and report to the Legislature during 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. This review resulted in a fee proposal that was ultimately approved in HB 4302 (2020 second special session) that allowed the program to avoid layoffs and continue current business operations. The program has significantly improved business practices and has largely eliminated its backlog of permits.

Additionally, the program's oversight of the permitting process related to the proposed chemical gold mine in Malheur County has required some additional resources beyond the internal capacity of the program, and as a result, the December 2020 Emergency Board approved a limited duration position to act as the mining process coordinator.

Legislatively Adopted Budget

The legislatively adopted budget for 2021-23 is $18.8 million total funds and includes 35 positions (34.67 FTE). This is a 6.5% increase in total funds from the 2019-21 legislatively approved budget. The General Fund portion of the 2021-23 legislatively adopted budget is 16.9% higher than 2019-21, while the Federal Fund portion is only half a percent less than 2019-21. The total Other Funds portion of the 2021-23 legislatively adopted budget increased 4.3% from the 2019-21 budget. The MLRR program is anticipated to have a beginning balance of around $450,000, which is close to three months of operating expenses.

The 2021-23 budget for the Geologic Survey and Services Program includes the elimination of five vacant positions and utilizes the General Fund from those positions to adjust the budgeted fund-split for existing filled positions within the program. By redistributing the General Fund to existing positions, the agency's science program will have a more stable revenue source for certain positions, reducing the funding imbalance caused by over-reliance on grants and projects. While this does not fully fund positions with General Fund, it will allow the program more flexibility to pursue appropriate projects and grants going forward.

Specifically, the budget modified the Natural Resource Specialist (NRS) 4 positions within the program, who are generally the subject matter experts and project leads, to 70% General Fund with the remaining 30% funded through either Other Funds or Federal Funds, depending on the position. The NRS 3 and NRS 2 positions in the program are modified to 25% GF and 75% Other or Federal Funds. The five positions being eliminated were being held vacant by the Department due to a lack of available funding, and the core work of the Department is not anticipated to be adversely impacted by the loss of these vacant positions.

Additionally, $328,710 General Fund was provided to the Department to align the budget and actual expenditures with the appropriate source of funding for the payment of State Government Service Charges. The Department's budget had assumed that these charges would be paid with a mix of General Fund, Other Funds and Federal Funds. However, the Other Funds and Federal Funds that the Department receives are related to specific projects or grants and therefore are not eligible to be used for payment of these central-service charges.

The budget for the MLRR program includes the continuation of the limited duration Natural Resource Specialist 4 position (0.75 FTE) initially approved at the December 2020 meeting of the Emergency Board. This position acts as the Chemical Process Mining Coordinator for the ongoing Grassy Mountain mining project and position costs are funded through reimbursement from the mining company. Additionally, the Department and its stakeholders have expressed interest in the development of an online permitting platform to improve efficiencies in the Mined Land Regulation and Reclamation program. The 2021-23 legislatively approved budget includes a budget note directing the Department to explore options to potentially utilize the Department of Environmental Quality's Environmental Data Management System of the purposes of online permitting and report back to the Legislative Fiscal Office by October 2021 on the feasibility and potential costs around this proposal.

Legislatively Approved Budget Update

The legislatively approved budget for the Department of Geology and Mineral Industries is a total funds increase of $162,532 above the legislatively adopted budget due to salary and compensation plan adjustments approved during the 2022 legislative session.

DEPARTMENT OF LAND CONSERVATION AND DEVELOPMENT

Analyst: Potter

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	17,919,643	14,981,191	25,446,798	26,114,458
Other Funds	1,685,952	1,657,286	1,654,793	1,793,345
Federal Funds	6,949,434	7,004,435	6,617,610	6,748,006
Total Funds	**$26,555,029**	**$23,642,912**	**$33,719,201**	**$34,655,809**
Positions	61	56	68	68
FTE	58.55	55.09	66.35	66.35

Overview

The Department of Land Conservation and Development (DLCD) is the administrative arm of the Land Conservation and Development Commission (LCDC). The agency is responsible for adopting statewide land use goals, enforcing compliance of local land use planning with those goals, coordinating state and local planning activities, and managing the coastal zone and natural hazards programs.

Oregon's land use planning system is based on a set of 19 statewide goals expressing the state's policies on land use and related topics such as 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 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. 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 Ballot 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 Oregon 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. The Division is also responsible for implementing the work outlined in HB 2001 (2019) and HB 2003 (2019), working to increase housing choice and supply for Oregonians.

- 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>

DLCD is supported with General Fund, Other Funds, and Federal Funds. General Fund is the primary revenue source and supports land use program activities and grants to local governments. Federal Funds provide the next largest portion of revenue. DLCD receives direct federal funding from the National Oceanic and Atmospheric Administration (NOAA) for coastal zone management work and from FEMA for floodplain management and other hazard mitigation planning. Other Funds are primarily from interagency agreements for reimbursement of joint programs.

DLCD receives federal funding from NOAA for coastal zone management activities through the Coastal Zone Management Act of 1972 (CZMA) and subsequent reauthorizations. The CZMA funds require matching funds and are restricted to programs in Oregon's coastal zone. The CZMA funds support staff positions and, in the past, a small grant program to local governments. Oregon provides match through in-kind services. During the 2013-15 biennium, the Department received notice from NOAA and the Environmental Protection Agency (EPA) of their intent to disapprove Oregon's Coastal Nonpoint Pollution Control Program (CNPCP), under the Coastal Zone Act Reauthorization Amendments. The NOAA and the EPA have determined that Oregon has not managed forests adequately to protect salmon habitats in streams and run-off and landslide risks due to past logging activities have not been addressed sufficiently. That disapproval trigged a 30% reduction in funding under the Coastal Zone Management Act. DLCD is dependent on assistance from the Oregon Department of Forestry to help implement the changes in forest practices to improve coastal water quality. Although Oregon has made progress in resolving the deficiencies through changes in programs, statute and regulations since the disapproval, the decrease is anticipated to continue into the 2021-23 biennium. As a result of the reduction in the CZMA grant, the Department has significantly reduced the level of local grants for coastal planning. A majority of the Federal Funds are used for agency staff and internal resources. In addition to the regular coastal program grants, the Coastal Program anticipates applying for a $250,000 Project of Special Merit similar to the one received in the 2019-21 biennium. The project scope would be to identify sea level rise and changing climate effects for the Oregon coast similar to what the Coastal Program has done for estuaries. The project would help coastal communities increase resilience to increasing wave heights and sea level rise along the ocean shore.

DLCD also receives Federal Fund revenues from FEMA as the state coordinator for the National Flood Insurance Program, specifically targeted at floodplain management and map modernization activities. A 25% match is required for floodplain management activities. FEMA is under pressure from NOAA to change the Flood Plain Management Program to address Endangered Species Act requirements and that will have an impact on development decisions in Oregon communities, and on the ability of landowners to purchase flood insurance.

Other Funds make up the smallest portion of the DLCD budget. For the 2021-23 biennium, Other Funds revenues include funds from the Oregon Department of Transportation. These funds, derived from federal transportation funds, are for the Transportation Growth Management (TGM) program. Because of the federal funding connection, these funds are dedicated to TGM related activities and cannot substitute for reductions in other areas. Other Funds have also historically come from partnerships with other agencies, including Oregon State University, and the Department of Administrative Services. Typically, such funds are for a specific purpose and not fungible for other purposes. Other Funds revenue is also received from the Office of Emergency Management for pass-through funds from FEMA.

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 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 ten biennia, the General Fund dedicated to general-purpose local assistance grants has been declining. Due to General Fund constraints, 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. This is often 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. In addition to planning grants, grant funds are awarded to Portland State University's Population Research Center to provide funding support for population forecasting. HB 2253 (2013) requires the production of population forecasts for specified geographic areas throughout the state no less than once every four years. The population forecasting cost for the 2021-23 biennium is estimated to be over $500,000. With total non-specified, General Fund local grant funding totaling $1.7 million this leaves an estimated net amount available to award of $1.2 million. The non-specified, General Fund local grant funding typically represents roughly one-third of the funding requested. Planning 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, in previous biennia, the Legislature has provided periodic appropriations of grant funding for specified purposes. For the 2019-21 biennium, HB 2001 (2019) and HB 2003 (2019) appropriated $4.5 million to DLCD for the purpose of providing technical assistance to local governments to implement middle housing regulations and provide urban services, as well as evaluate housing needs. During the 2020 first special session the budget for this work was reduced from $4.5 million to $3.3 million due to declining General Fund revenues caused by the pandemic. Much of the 2020 work was dedicated to rulemaking, with small, medium, and large sized cities all having to adopt rules to comply with the new laws.

Legislatively Adopted Budget

DLCD's 2021-23 total funds budget is $33,719,201 and includes 68 positions (66.35 FTE). This amount represents a 28.2% increase from the 2019-21 legislatively approved budget. The DLCD 2021-23 legislatively adopted budget is comprised of 75.4% General Fund, 19.6% Federal Fund, and 4.9% Other Funds. However, discounting the $1.7 million General Fund dedicated to local planning grants and an additional $9.3 million General Fund dedicated to one-time projects ($5.8 million of which is dedicated to local planning grants), General Fund supports about 63.6% of the agency's ongoing operational budget. Federal Funds account for 29.1% and Other Funds account for 7.3% of the agency's total funds budget, exclusive of one-time funded programs and dedicated local grant funding. The total 2021-23 Grants Program budget is $7,503,199, which is about 30% of the agency's General Fund budget. The adopted budget includes:

- $205,418 General Fund and one permanent position (1.00 FTE) for grant coordination.
- $578,070 General Fund to replace a $326,742 reduction in Federal Funds limitation for the Climate Change Resilience Coordinator. Currently, this position is funded through a federal grant from NOAA. This funding is set to expire at the end of the 2019-21 biennium. This investment also includes funding to complete a statewide climate change vulnerability assessment.

- $328,253 General Fund and one position (1.00 FTE) to fund a permanent full-time Planner 4 position to work with the Oregon Department of Forestry and other affected agencies on wildfire mapping and land use recommendations. Funding will be used to identify updates to the statewide land use planning program and local comprehensive plans and zoning codes that are needed in order to incorporate wildfire risk maps and reductions strategies. Updates are anticipated to include provisions regarding sufficient defensible space, building codes, safe evacuation, and development considerations in areas of high wildfire risk. This investment aligns with the work required of DLCD by SB 762 (2021), the comprehensive wildfire mitigation bill.
- $1 million General Fund on a one-time basis and one limited duration position (1.00 FTE) for Equitable Rural Transportation Planning. The bulk of this investment would be made available to local governments in the form of direct technical and financial assistance grants ($525,000) and contracts ($200,000) to provide rural communities with data, mapping, outreach and engagement best practices to equip and prepare these communities to participate in the ODOT process for state and federal pass-through funding for pedestrian, bicycle, and transit projects.
- $3,904,344 General Fund on a one-time basis and 6 limited duration positions (5.50 FTE) to continue work required by HB 2001 (2019) and HB 2003 (2019) to provide technical assistance grants to local governments for the development and adoption of housing production strategies. This investment includes $2,500,000 in technical assistance to local governments, including smaller communities and rural areas, through contracted services and/or grants, to implement middle housing regulations and to develop plans to improve water, sewer, and storm drainage.
- $1 million General Fund on a one-time basis and one limited duration Planner 3 position (0.88 FTE) to develop rules relating to land use and transportation program development and implementation to meet Oregon's greenhouse gas reduction goals from the land use and transportation sector. This position would focus on assisting local governments with equity-oriented scenario planning and administrative rule implementation. The investment includes $768,900 to provide grants to cities and counties for updating transportation and land use plans.
- $2 million General Fund on a one-time basis to expend on grants to local governments for planning and capacity-building related to the assessment of housing need, increasing housing supply and choice (particularly middle housing), including studies of infrastructure constraints, and support of local housing coordinators.
- $1,306,912 General Fund on a one-time basis and one limited duration position (1.00 FTE) to study and make legislative recommendations, in consultation with the Housing and Community Services Department, on the incorporation of a Regional Housing Needs Analysis (RHNA) into state and local planning programs. The investment includes $1,146,100 for studies and stakeholder outreach to examine the following areas: (1) data needed, including but not limited to race/ethnicity, to improve estimations of housing need; (2) definition of "regions" in the state; (3) how a RHNA can be used to address equity, discrimination, and segregation in housing supply; (4) incorporation of a RHNA into the projection of local housing need as well as those actions and policies adopted to address housing shortages; and (5) any other issues appropriate to the implementation of the RHNA.

The budget includes a budget note directing DLCD, in consultation with Oregon Housing and Community Services, to provide an initial legislative report no later than February 1, 2022 and a final legislative report no later than December 31, 2022 on efforts to develop a legislative proposal for incorporation of a regional housing needs analysis into future state and local planning processes.

Two additional pieces of substantive legislation also included General Fund appropriations for the agency:
- A General Fund appropriation of $68,000 was made to the agency in HB 2918 (2021). The bill requires DLCD to develop and implement a web-based database to enable local government entities to upload inventories of surplus real property, owned by the local government, located inside an urban growth boundary or located in an area zoned for rural residential use. The measure also authorizes mass transit and transportation districts to submit inventories of surplus real property owned by the district to this online system. DLCD is not responsible for verifying the accuracy of information submitted before making the information available to

the public. DLCD is required to present information submitted to this system to an interim committee of the Legislative Assembly no later than February 1 of each even-numbered year. DLCD plans to contract with Oregon State University's Institute for Natural Resources to develop the web-based system.

- In addition, HB 2603 (2021) appropriates $497,081 General Fund on a one-time basis and one full-time, limited duration Planner 3 position (0.88 FTE) to provide support to update the Territorial Sea Plan addressing placement and removal of cables. HB 2603 requires owners or operators of undersea cables to obtain financial assurances for installation and removal of cables and create a plan for removal of cables. To ensure the requirements of the bill are implemented, DLCD is directed to provide support to update the Territorial Sea Plan addressing placement and removal of cables. DLCD, in consultation with the Department of State Lands and local and tribal governments, is required to perform a review of the portion of the Territorial Sea Plan addressing the placement of cables, pipelines, and other utilities in the territorial sea. Results of this review will be reported to the Ocean Policy Advisory Council. To complete this work, DLCD will assist the Council with recommendations for amendments to the Territorial Sea Plan, including the study of the permitting process and landing site suitability at a cost of $197,081 General Fund, including position-related services and supplies. Additionally, DLCD will contract work to perform a study of the entire Oregon Coast to determine opportunities, limitations, and requirements for landing sites at a cost of $300,000 General Fund.

Legislatively Approved Budget Update

The legislatively approved budget for DLCD totals $34,655,809, which is a $936,608, or 2.8%, increase from the 2021-23 legislatively adopted budget. Much of this increase is due to statewide employee compensation plan adjustments. No changes to the number of positions or FTE were made. Other investments included:

- Added a one-time General Fund appropriation increase of $150,000 to expand current work on the Regional Housing Needs Analysis implementation. This investment will allow the agency to support anticipated interim work by legislators and stakeholders around housing and land supply issues. During the 2022 legislative session DLCD and the Housing and Community Services Department provided their initial report on efforts to develop a legislative proposal for incorporation of a regional housing needs analysis into future state and local planning processes. A final report is due to the Legislature no later than December 31, 2022.
- Reestablished Other Funds expenditure limitation of $90,660 for the City Economic Development Pilot Program Fund established in HB 2743 (2017). The expenditure limitation had been inadvertently phased out by DLCD during the previous budget cycle. This program is now reaching its conclusion, and approximately $36,700 in project funding remains in the fund that was provided by the City of Madras. DLCD will return all remaining funds to the City of Madras less any costs associated with the report required by HB 2743 (2017), which are expected to be minimal.

LAND USE BOARD OF APPEALS

Analyst: Potter

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,203,477	2,237,153	2,590,340	2,686,644
Other Funds	79,905	36,486	36,486	36,486
Total Funds	**$2,283,382**	**$2,273,639**	**$2,626,826**	**$2,723,130**
Positions	6	6	7	7
FTE	6.00	6.00	7.00	7.00

Overview

The Land Use Board of Appeals (LUBA) was created by the Oregon Legislature in 1979 to simplify the land use appeal process. LUBA has exclusive jurisdiction to review appeals of land use decisions made by cities, counties, districts, and state agencies. Prior to LUBA's creation, appeals of land use decisions were heard in 36 different county circuit courts, and sometimes before the Land Conservation and Development Commission. In creating LUBA, the Legislature intended to provide an efficient process for resolving land use disputes as well as to promote a consistent interpretation of state and local land use laws. LUBA's decisions are reviewable by appeal 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. LUBA is required by statute to publish its orders and opinions and make them public for citizens, decision-makers, and participants in land use processes to use as guidance for future land use decision-making. Final opinions are posted online the morning after they are issued and collected in published volumes of the LUBA Reports. The three-member Board, appointed by the Governor to serve four-year terms, must be attorneys who are members of the Oregon State Bar in good standing. Board members are salaried employees who resolve appeals, issue orders, prepare for, and conduct oral arguments, provide peer review, contribute to the publication of LUBA's headnote digest, and participate in continuing legal education and land use seminars.

Revenue Sources and Relationships

General Fund supports over 98% of LUBA's core operations. The remaining 2% of Other Funds is derived from filing fees, publications sales, and other miscellaneous fees. The Other Funds revenue generated from the publication and sale of LUBA Reports enables the Board to meet its statutory obligation to publish its final opinions and make them available to the public. LUBA will issue four volumes during the 2021-23 biennium. LUBA's budget is based on an estimated $35,000 in sales income during the 2021-23 biennium. The estimate is consistent with past sales trends and assumes that LUBA will issue four volumes during the biennium, selling approximately 50 of each volume at a charge of $175 each. These funds are used for Continuing Legal Education expenses for Board Members, a statutory requirement of the position. The LUBA Reports continue to be self-sustaining and have recently seen an increase in subscribers.

HB 2110 (2021) increases filing fees from $200 to $300 per notice of intent to appeal. This fee was last increased in 2009. Filing fees are paid by persons who file an appeal of a land use decision with LUBA and persons who move to intervene on the side of the appellant or on the side of the local government. The filing fees are transferred to the state's General Fund. LUBA estimates the agency will transfer $138,100 to the General Fund from these fees during the 2021-23 biennium. This estimate is based on a projected total of 367 appeals for the biennium and an appeal fee of $300, and a projected 280 intervenors for the biennium and an intervenor's fee of $100.

Budget Environment

The primary drivers of LUBA's workload are the number of land use appeals, staff capacity, and case complexity. The number of case filings in any given year is influenced by economic activity, population growth, and changes in land use policy. The Board has a 20-year average of 177 appeals a year, with a peak of 262 filings in 2007, immediately preceding the Great Recession. The number of filings has not returned to pre-Recession highs, although case numbers have recently increased, with the Board seeing a 25% rise in appeals filed since 2015. While the number of case filings is the primary determinant of LUBA's workload, staff capacity in conjunction with the complexity of individual cases remain important factors. In resolving land use disputes, LUBA must comply with a 77-day statutory deadline for the issuance of final orders (ORS 197.830(14)). Land use disputes centering on urban growth boundaries (UGBs) and rural resource use are particularly complex and time intensive. LUBA has jurisdiction over UGB amendments of less than 50 acres with two to four UGB amendment decisions made each year. These decisions are complicated and frequently appealed to the Oregon Court of Appeals. In 2016, Oregon's Land Conservation and Development Commission adopted new rules for local governments to make simple UGB amendments. While LUBA has yet to hear a case resulting from this rule change, there could be more UGB case filings as local governments adopt the revised rules. LUBA has also reviewed a number of complex marijuana related land use issues, a trend likely to continue as local governments and other stakeholders come to terms with cannabis legalization.

In a seven-month period between June 2018 and January 2019, two Board members who had served on LUBA for 28 and 20 years, respectively, retired. The Governor appointed new members to the Board, resulting in a 66% turnover of the Board in approximately seven months. In addition, in 2019, LUBA experienced a full turnover of support staff. The retirements of two Board Members and the ensuing transition as new Board Members on-boarded has contributed to a delay in issuing final opinions. LUBA is experiencing delays in meeting its performance measure target to resolve appeals within one week of the 77-day deadline, in addition to delays in resolving record objections within 60 days of filing. LUBA is also experiencing a backlog of opinions to publish in the LUBA Reporter, which is also attributed to staff turnover.

Legislatively Adopted Budget

The budget for the Land Use Board of Appeals totals $2,556,501 and 7 positions (7.00 FTE), including $2.52 million General Fund and $36,486 Other Funds. The budget increased $343,444, or 15%, from the legislatively approved budget for the 2019-21 biennium. The budget includes $201,818 General Fund and one position (1.00 FTE) to establish a second staff attorney position to enable the Board to better meet its statutory obligation to issue opinions and orders within the statutory deadlines. The budget also includes $50,000 General Fund for the Board to work with the Department of Administrative Services Enterprise Information Services (DAS EIS) to begin the foundational work on an electronic filing and case management system. A budget note requires LUBA and DAS EIS to jointly report on the progress of this work, including funding requirements, to the Joint Committee on Ways and Means during the 2022 legislative session.

Legislatively Approved Budget Update

The legislatively approved budget for LUBA totals $2,723,130, including $2.57 million General Fund and $36,486 Other Funds. The budget's General Fund increased by $96,304, or 3.7%, due to employee salary and statewide compensation plan adjustments. No changes to Other Funds, positions, or FTE were made.

A joint report that was due during the 2022 legislative session between the Land Use Board of Appeals and Department of Administrative Services Enterprise Information Services was deferred until the end of 2022. The report was to provide progress on foundational work for an electronic filing and case management system for the Board, including any funding requirements.

DEPARTMENT OF STATE LANDS

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	1,060,000	123,060,000
Other Funds	61,987,659	41,170,389	51,942,624	53,775,720
Other Funds (NL)	14,627,890	10,627,890	7,727,890	7,727,890
Federal Funds	2,865,168	2,108,955	2,933,955	2,990,902
Total Funds	**$79,480,717**	**$53,907,234**	**$63,664,469**	**$187,554,512**
Positions	115	109	105	105
FTE	112.63	107.50	103.38	103.38

Overview

The Department of State Lands (DSL) is the administrative arm of the State Land Board. The Board, created under the Oregon Constitution, consists of the Governor, the Secretary of State, and the State Treasurer. The Board is responsible for managing the assets of the Common School Fund. These assets include equity investments managed by the Oregon Investment Council and the State Treasurer on behalf of the Board and over two million acres of state lands deeded at statehood in trust for education, and other lands designated by statute. 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 and wetlands 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 – 87 positions (85.88 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 in 1987 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 (SSNERR) – 18 positions (17.00 FTE). The SSNERR is 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 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.

DSL derives statutory revenues from investment earnings on unclaimed property held in trust within the Common School Fund. With the transfer of administration of the unclaimed property program to the Oregon State Treasurer (OST), a portion of those earnings will be used to fund the administration of those programs at OST. Refinements were made by HB 2158 (2021) to provide the specific statutory framework for the OST administration of the program in anticipation of the July 1, 2021 transfer of the programs. How this will impact the available investment income for the Department of State Lands' operation of the remaining statutory programs has yet to be determined completely.

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 and to a lesser extent, investment income derived from escheated estates. 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. Budgeted revenues for the 2021-23 biennium from timber sales on CSF lands managed by ODF are $7.5 million and budgeted costs of ODF management on those lands is $4.82 million.

Common School Fund revenue distributions to the Department of Education are made on an annual basis. Because these funds are directly transferred to the Department of Education, they are not included as part of the DSL budget. Estimated total distributions for the 2021-23 biennium are $136.8 million.

Federal Funds received by the Department from the U.S. Environmental Protection Agency, Office of Coastal Resource Management; National Oceanic Atmospheric Administration, Department of Commerce; and U.S. Fish and Wildlife Service, support the wetlands program, permit streamlining efforts, and the SSNERR. Federal Fund receipts are estimated at $4.7 million for the 2021-23 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 (2018), 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.

HB 454 (2019) transferred the administration of the Unclaimed Property, Unclaimed Estates, and Escheating funds from DSL to 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 measure also shifted the responsibility for the calculation and transfers required by SB 1566 (2018) to the School Districts Unfunded Liability Fund.

The Unclaimed Property Program had been operated by DSL for the last 64 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.

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 owned bridges, abutments, and adjoining lands.

Currently the agency is engaged in a two-part strategy of building a legal argument that limits the state's liability for the cost of the Portland harbor clean-up, and a project-centric approach to remedial design and cleanup efforts that serve to minimize the total potential costs to the state, and to encourage other potentially responsible parties to begin cleanup work at the site. 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.

In addition to the funding for the legal defense costs, 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 and an allocation of $3 million in lottery bond proceeds were made for deposit in the fund. 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 total 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.

The agency's 2019-21 biennium budget included an Other Funds expenditure limitation from the Portland Harbor Cleanup Fund for projects that had begun in the previous biennium. These included:

- 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 $1.8 million of the net funding provided.

Some of this work was completed in the prior biennium and some of the work is ongoing. Concurrently, the Department, in partnership with the Oregon Department of Transportation and the City of Portland negotiated a settlement with the U.S. EPA limiting the state's liability for remedial design work. As a part of that settlement, the state agreed to providing 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 the EPA issuing an administrative order for the work to be completed. The City of Portland provided a matching funding commitment under the same terms. 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 the EPA under the negotiated agreement. Seventeen potentially responsible parties participated in the funding opportunity provided by the city and state on seven different sites within the superfund area. Limiting the state's liability exposure for remedial design work on those sites to $5.6 million.

An additional $6.3 million Other Funds expenditure limitation was provided by the September 2020 Emergency Board. Of the total, $4.8 million was for three remedial design projects outside of the areas that were funded under the joint city/state agreement. Two of these projects propose a cost share participation that is proportionally equal to the state's obligation under the joint city/state agreement. The third assumes a 25% liability for the total remedial design cost. The completion of these agreements will provide virtually complete coverage for remedial design throughout the superfund site. The remaining $1.45 million of requested limitation will be used for informational management plans, data management plans, public outreach, and technical support contracts.

Legislatively Adopted Budget

The 2021-23 biennium total funds budget for DSL was $63,664,469 and 105 positions (103.38 FTE). This is a $15.8 million, or 20%, reduction from the 2019-21 legislatively approved budget. The reduction is due primarily to the transfer of the Unclaimed Property and Escheated Estates programs to the Oregon State Treasurer, offset somewhat by new legislative investments as described below.

A one-time appropriation of General Fund was made in HB 3114 of $1,060,000 for deposit in the Oregon Ocean Science Fund for distribution by the Oregon Ocean Science Trust in consultation with the Oregon Coordinating Council on Ocean Acidification and Hypoxia. The agency was provided a corresponding increase in Other Funds expenditure limitation for the monies deposited in the fund to accommodate the following competitive grants:
- $100,000 for intertidal acidification and hypoxia monitoring.
- $300,000 for subtidal ocean acidification and hypoxia monitoring.
- $100,000 for ocean acidification and hypoxia monitoring in Yaquina Bay.
- $140,000 for ecosystem modeling of submerged aquatic vegetation.
- $25,000 to develop recommendations for maximizing the abundance of shellfish and submerged aquatic vegetation in Oregon estuaries.
- $150,000 to develop best management practices for conducting shellfish cultivation.
- $180,000 to fund a study on the life cycle impacts of ocean acidification and hypoxia on shellfish species important to Oregon; and
- $65,000 to develop communications plan and strategy for outreach and education.

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 2021-23 biennium expenditure authority for anticipated Department of Justice legal expenses to defend the state's interests specifically connected to the State Land Board's jurisdiction and authorities, continuation of a limited-duration Natural Resource Specialist 4 project coordinator position (1.00 FTE) that has been funded in the past two biennia, authorizes the establishment of a second limited-duration position to share the workload of the permitting and authorization process involved with various projects funded through the Portland Harbor Cleanup Fund, and provides for professional services contract work for environmental consulting and remediation project design development. The personal services and associated operational expenses for the positions total $485,190. The remaining cost of the package is for estimated Attorney General costs of $3 million and $4,459,041 in professional services contracts. This funding has been included in the agency's budget since the 2011-13 biennium as shown in the following table.

	Personal Services	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
2021-23 (pop 101)	485,190	3,000,000	4,459,041	7,944,231
Total	**$1,314,210**	**$10,966,264**	**$21,416,672**	**$33,697,146**

In addition to the legal defense costs detailed here, $5,249,000 Other Funds was provided for remediation design work and initial project work within the site through the Portland Harbor Cleanup Fund. The majority of this work is a continuation of projects that were started in the prior biennium and discussed in the *budget environment* section above. The two largest components provide state funding support for remedial design work in the Swan Island ($2.5 million) and Willamette Cove ($1.1 million) areas.

The budget accounts for actions that were taken to implement the transfer of administration of Oregon's Uniform Disposition of Unclaimed Property Act, unclaimed estates, and escheating funds from DSL to Oregon State Treasury. Fourteen program-specific positions (14.00 FTE) were included in the transfer and therefore have been eliminated from the DSL budget. Position costs for that portion of positions that had previously provided administrative support or supervisory functions for the unclaimed property program as a fraction of their overall duties has been reallocated to other agency programs. The net impact of the change is a reduction of $6,583,797 Other Funds and $2.9 million Other Funds Nonlimited.

A proposal that enables the agency to self-fund six positions to expand the agency's staffing capacity in the wetlands program, the land management program, and administration was approved. The six positions were established as limited-duration positions during the prior biennium to address potential agency improvements in providing community engagement, rulemaking and recordkeeping, legislative support, local planning and development, and land management. To fund the positions on an ongoing, permanent basis, the budget includes unspecified reductions in the services and supplies expenditure categories equal to the $1.3 million in additional personal services expenditures for the positions.

The budget reestablishes $2 million Other Funds expenditure limitation in the 2021-23 biennium for costs related to the management of the Elliott State Forest. The majority of the funding supports a maintenance management contract. The management contract includes three primary tasks including: maintaining road system for safe public access, reforestation as required under the Oregon Forest Practices Act, and general property administration. Prior biennia funding included limited-duration position authority for a forester position associated with the Elliot State Forest. That position is established as a permanent, ongoing position in the agency's budget, funded through unspecified reductions in the agency's services and supplies budget as noted above.

For the past two biennia, DSL has been working on a project to replace the information technology systems that support their Lands Administration functions. The current Land Administration System (LAS) was initially deployed in 1999. The foundational technologies that underpin the current LAS are no longer supported. The agency received Stage Gate 1 endorsement from the State CIO in July 2018 to continue the planning phase for the project. The agency has not yet received Stage Gate 2 endorsement. The agency has struggled with managing their IT resources and during the prior biennium, the internal project management position was eliminated in favor of a contracted position. Additionally, the agency was required to conduct a comprehensive assessment of the agency's information technology-related operations in conjunction with Enterprise Information Services. That assessment was completed, and the agency reported the findings to the Joint Legislative Committee on Information Management and Technology during the 2020 legislative session. The budget provides for the 2021-23 biennial costs of the quality assurance and project management contracts related to the LAS project, that are estimated to cost $1.1 million in 2021-23. The budget also authorizes the establishment of a high-level Information Technologies position (1.00 FTE) to act as a data architect for the agency. The position will work to create a standard common business vocabulary for data management, the development of strategic data requirements, the development of integrated data designs to meet these requirements, and data strategies that align to the related business processes. This position will provide significant structural support for the Lands Administration System replacement project.

Federal Funds expenditure limitation of $325,000 was included to allow the agency to expend grant funds awarded in the prior biennium for activities at the South Slough National Estuarian Research Reserve and the Wetlands Management programs. An additional increase of $200,000 Other Funds expenditure limitation from the Submerged Lands Enhancement Fund for the 2021-23 biennium was approved. Statute allows for DSL to deposit up to 20% of the monies collected by DSL for leases, easements, registrations, and other permissions for the use of state-owned submerged or submersible lands. The funds are granted to entities engaging in eligible activities including marine debris cleanup, abandoned and derelict vessel removal, and habitat and water quality enhancements.

<u>Legislatively Approved Budget Update</u>
The legislatively approved budget for DSL totals $187,554,512. The budget increased by $123.9 million, or 194.6%, from the 2021-23 legislatively adopted budget. No changes to positions or FTE were made.

The near tripling of the budget is mostly due to a one-time General Fund appropriation of $121 million to DSL for deposit in the Common School Fund, that is intended to satisfy the financial obligations to the Common School Fund related to the Elliot State Forest and passage of SB 1546 (2022). The $121 million amount was based on a 2016 appraisal of the Elliot State Forest at a value of $221 million, less the $100 million that was paid to the Common School Fund from the proceeds of certificates of participation that were authorized for issuance in 2019. This payment is a prerequisite condition for SB 1546 provisions establishing the Elliot State Research Forest consisting of lands formerly constituting the Elliot State Forest. DSL anticipates no additional administrative costs in their 2021-23 biennial budget because of this measure. It intends to submit a Policy Option Package during the 2023-25 budget development process to request funding for the Elliott State Research Forest Authority, a new state agency that is tasked with operating as a financially self-supporting entity and overseeing the Research Forest.

The Legislature also approved a one-time General Fund appropriation of $1 million to DSL for deposit into the Oregon Ocean Science Fund established under ORS 196.567. The funds are to be spent by the Oregon Ocean Science Trust to further science and monitoring along Oregon's ocean and coastal habitats, which includes nearshore keystone species such as sea otters, kelp and eelgrass habitat, and sequestration of blue carbon. A corresponding Other Funds expenditure limitation increase was provided to DSL for these funds to be spent in the manner described.

The remaining increases are due to adoption of statewide employee compensation plan adjustments.

MARINE BOARD

Analyst: Walker

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	28,752,144	30,186,262	30,067,889	31,401,106
Federal Funds	6,377,646	6,598,631	6,598,631	6,559,930
Total Funds	**$35,129,790**	**$36,784,893**	**$36,666,520**	**$38,061,036**
Positions	40	40	40	40
FTE	39.25	39.50	39.50	39.50

Overview

The Oregon State Marine Board is responsible for registering and titling all recreational motorized and sailboats 12 feet and longer in the state, providing boater education, marine law enforcement, facility access, and mitigating the effects of invasive species on native waters. The Board's programs serve over 170,000 registered users and approximately 190,000 users that are not registered.

The Board is divided into four major program areas:

- The Administration and Education program contains all of the costs directly associated with the work of the actual Board, as well as performing a variety of administrative and registration functions.
- The Law Enforcement program unit contracts with 32 county sheriffs' offices and the Department of State Police for marine law enforcement services.
- The Facility Grants program offers assistance and awards grants to federal, state, and local governments for the design and construction of marine access facilities across the state.
- The Aquatic Invasive Species Prevention program is to protect against the introduction and spread of aquatic invasive species through education, enforcement, and inspection/decontamination services.

Revenue Sources and Relationships

The Board anticipates a slight decrease in boater registrations and anticipates a slight uptick in nonmotorized boating permits. As there are fewer boaters, revenue from fuel tax revenues are anticipated to stay flat or slightly decrease. The Board last increased fees in the 2019 session and does not anticipate needing an additional increase in 2021-23. If revenue decreases beyond what is anticipated, it may result in fewer law enforcement and facility grants being made.

Approximately, 82% of the Board's operating revenues are Other Funds with 58% from boat registration and titling and 28% from fuel taxes. The balance of remaining Other Funds revenue sources are from waterway access permits, aquatic invasive species permits, guides and outfitters permits, and education fees. The remaining operating revenues (18%) are comprised of Federal Funds in the form of grants, primarily from the US Coast Guard and the US Fish and Wildlife Service.

Budget Environment

The primary source of operating funds for the Board are boater registration fees and boater registrations. The Board anticipates a decrease of 2% in boater registration on 2021 - 23. As revenues decrease, fewer boating facility grants and marine law enforcement grants will be awarded, resulting in a potential degradation of boating facilities and a decrease in marine safety patrols. In addition, as boater registration decreases the share of Motor Fuel Taxes decreases proportionally.

Legislatively Adopted Budget

The 2021-23 Legislatively Adopted Budget for the Oregon State Marine Board is $30,067,889 Other Funds, $6,598,631 Federal Funds, and 40 positions (39.50 FTE), for a total funds budget of $36,666,520 an increase of 4.4% from the 2019-21 legislatively approved budget. The Legislature approved a reclassification of the Business Service Manager position and the Law Enforcement manager position to reflect the actual job duties and responsibilities of those positions. The increased costs were offset with a corresponding reduction in Services and Supplies. HB 5006 included an appropriation of $1 million in American Rescue Plan Act (ARPA) funding for the Abandoned and Derelict Vessels (ADV) subaccount to assist in removing ADVs from local waterways. This funding is pending guidance from the federal government and approval by the Department of Administrative Service as appropriate use of the funds. The funds have not been formally added to the Board's budget but may be added later through legislative action if formally approved.

Legislatively Approved Budget

The 2021-23 legislatively approved budget increased the agency's budget by 3.8% over the 2021-23 legislatively adopted budget. Budget adjustments included formal approval of $1 million Other Funds in ARPA funding for the ADV subaccount to assist in removing those vehicles from local waterways; $50,000 Federal Funds limitation for a National Oceanic and Atmospheric Administration grant also for ADV removal; and an increase of $333,217 Other Funds and $11,299 Federal Funds limitation for employee compensation and other statewide adjustments approved through the end of the 2021-23 biennium.

PARKS AND RECREATION DEPARTMENT

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	2,549,040	2,560,334
Lottery Funds	119,317,103	121,265,593	119,081,060	121,334,605
Other Funds	133,148,859	111,301,186	175,550,478	177,958,102
Federal Funds	17,412,831	10,857,363	22,802,629	22,854,464
Total Funds	**269,878,793**	**243,424,142**	**319,983,207**	**324,707,505**
Positions	870	862	864	864
FTE	602.55	602.55	597.07	597.07

Overview

The Oregon 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, 5.88 FTE) Responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. It also provides public information, agency program review, internal audits, and coordinates rulemaking in its efforts to improve agency performance.
- Central Services – (82 positions, 81.51 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 – No budgeted positions are currently housed in the program. The park development budget includes the non-personnel costs of engineering, survey, and construction for statewide park development projects, including repairs and deferred maintenance. This budget also includes funding for the purchase of new real property.
- Direct Services – (750 positions, 483.68 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 – (26 positions, 26.00 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.

Article 15, section 4a (3), of the Oregon Constitution details the allocation of Lottery revenues between Oregon Parks and Recreation Department operations and local parks programs grant funding. Currently 88% of the funding is used for OPRD operations and 12% is allocated to local grants. the Constitution provides for a redistribution of the funding to 75% for OPRD operations and 25% for local grants if the revenues deposited in the Parks and Natural Resources Fund exceed 150% of the amounts deposited in the 2009-11 biennium. The May 2021 revenue forecast for the 2021-23 biennium predicts that this will occur in the upcoming biennium. However, the change in the distribution is based on amounts actually realized and, therefore, the budget reflects the current allocation ratio of 88% and 12%, but provides for sufficient fund balances for the redistribution of revenues should sufficient revenues be realized to change the allocation during the biennium

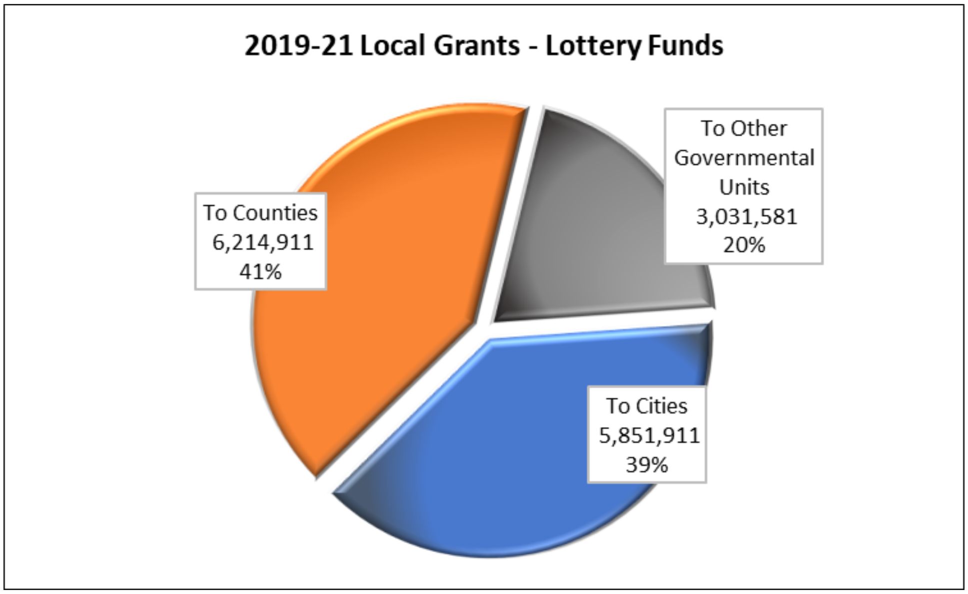
The following display shows funding amounts for 2009-11 through projected revenue for 2021-23. In 2009-11, the local grant amount is less than 12% of the net lottery available because the measure passed and was effective mid-biennium.

Parks Dedicated Lottery Funding

	2009-11	2011-13	2013-15	2015-17	2017-19	2019-21	2021-23*
$ Millions	$ 81.5	$ 81.0	$ 79.6	$ 92.7	$ 96.1	$ 90.1	$ 123.9
Percent Change from 2009-11 Biennium		-0.6%	-2.4%	13.7%	17.9%	10.6%	52.0%
12% for Local Grant Program	$ 6.5	$ 9.7	$ 9.6	$ 11.1	$ 11.5	$ 10.8	$ 14.9

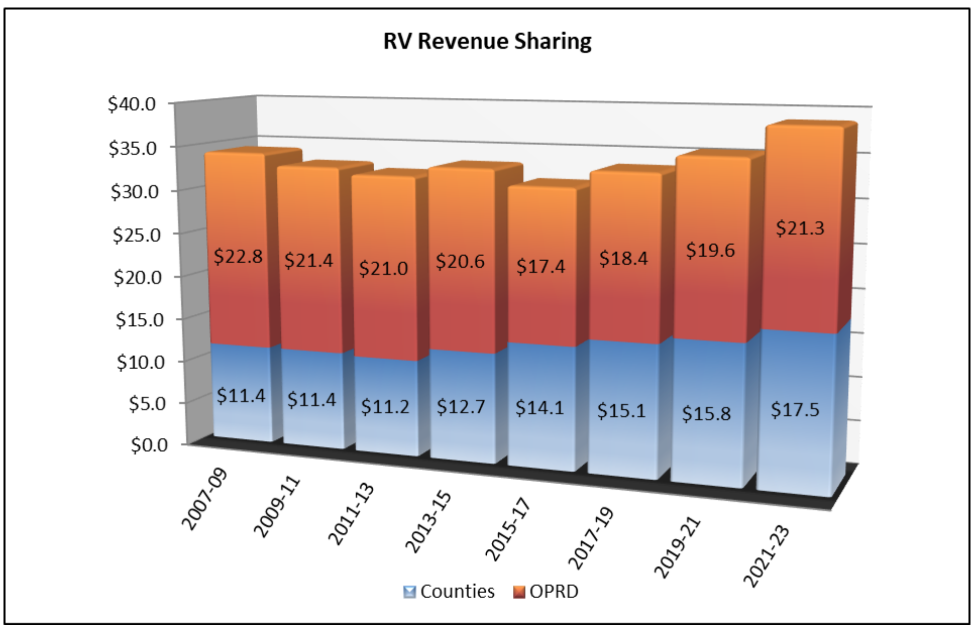
*May 2021 Forecast

The 2021-23 legislatively adopted budget assumes $123.9 million Lottery Funds revenue will be generated for the State Parks and Recreation Department sub-account as of the May 2021 revenue forecast. Of that amount, $14.9 million is required to be appropriated by the Legislature to local park grant programs. Actual budgeted amounts for local grant funding in any given biennium may vary due to the carry-forward of unexpended funding from prior biennia. The budgeted distribution of local government grant funding is presented graphically in the following figure:



Park user fees of $57.7 million represent 21.6% of total revenues for the 2021-23 Biennium.

The OPRD budget anticipates transfers from the Oregon Department of Transportation (ODOT) totaling $57 million. Of that amount, $38.8 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 2021-23, of the total transferred RV revenue of $38.8 million, $21.3 million will be retained for the state parks system and $17.5 million will be transferred to counties, including $1.7 million for county opportunity grants. The current estimate of RV registration fees reflects a decrease of approximately $0.6 million from 2019-21.

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 2021-23 are $14.4 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 state 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 2021-23 biennium this is anticipated to be $715,483.

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. The 2021-23 budgeted transfer from ODOT is $2,189,748.

The Legislature also created a “salmon” license plate that has a premium surcharge above the standard license plate fees. OPRD anticipates receiving $373,574 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 $27.2 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.

SB 794 was adopted during the 2021 legislative session requiring that the schedule of park user fees relating to recreation vehicles be 25% higher for non-residents than for residents of Oregon. While this fee differential is not accounted for in the agency’s budget for the 2021-23 biennium, OPRD estimates that the new fee schedule will produce an additional $1.6 million in park user fee revenues in 2021-23 and $2.1 million in 2023-25.

<u>Budget Environment</u>

Property acquisition is a fundamental component of ensuring an adequate supply of land is available for the recreational enjoyment of Oregonians and to preserve an area of outstanding natural, scenic, or historical value. Opinions vary widely on how much new parkland is needed. On average since 1997, there are 27.3 acres of state park land per 1,000 population. The addition of new parks and recreation sites exert upward pressure on ongoing operational and maintenance costs. Lottery Funds have made these acquisitions and new developments possible. Managing the increase in operating costs over time, however, is a major issue. Changing demographics may result in promoting different forms of recreational activity other than camping.

The Parks and Recreation Department made significant operational reductions during the 2019-21 biennium in response to the COVID-19 pandemic in order to help stop the spread of the contagion and to align operations with projected available revenues. Although with the availability of vaccines for COVID-19, the department was able to resume certain operations, there is a possibility that operations of the parks could be somewhat curtailed well into the upcoming biennium, which may require additional budgetary adjustments.

Legislatively Adopted Budget

The legislatively adopted budget for the Oregon Parks and Recreation Department totals $264.1 million which includes $2,549,040 General Fund, $119,081,060 Lottery Funds, $175,550,478 Other Funds, $22,802,629 Federal Funds, and 864 positions (597.07 FTE). The 2021-23 adopted budget represents a $50.1 million, or 18.6%, increase from the 2019-23 legislatively approved budget.

The increased budget is almost entirely attributable to the addition of $50 million Other Funds expenditure limitation for lottery revenue bond proceeds for improvements to facilities in multiple Oregon state parks. The bond funding is for projects that include improvements or replacements to facilities and related infrastructure such as buildings, water systems, septic and sewer systems, electrical systems, restroom and shower facilities, as well as modernizing and expanding campgrounds. It is unlikely that the entire funding will be expended in the 2021-23 biennium, and therefore, unexpended amounts are anticipated to be requested to be carried-forward into subsequent biennia. Debt service on the bonds is budged to be $2,464,209 General Fund in 2021-23.

Other than the debt service on the general obligation bonds, the only General Fund in the OPRD budget is a General Fund appropriation of $316,480 that accompanies the authorization to establish a limited-duration Operations and Policy Analyst position (0.88 FTE) for the development of statewide standards for recreation projects as directed by HB 2171 (2021) and administrative support for the Outdoor Recreation Advisory Committee. The funding supports the position, provides for contracted consulting services, and travel and other expenses of the Outdoor Recreation Advisory Committee.

The establishment of a permanent Diversity, Equity, and Inclusion (DEI) Officer position (1.00 FTE) at a cost of $216,073 Lottery Funds in the 2021-23 biennium was approved. The position will coordinate, develop, and expand on DEI initiatives and programs that the agency is currently operating. Additional expenditure authority of $420,849 Lottery Funds and $441,900 Other Funds was included in the budget for the payment of costs under certain expenditure categories for which standard inflationary factors are not applied during the formation of the current service level. These include: Increased network connectivity costs related to improvements to the agency's network connectivity capability and increased in vendor charges, increased merchant fees, and fuel and utilities costs.

The Legislature increased expenditure limitation by $12.5 million Other Funds and $11.9 million Federal Funds to allow for the payment of awards from the Oregon Main Street Grant Program, the County Opportunity Grant Program, the Land and Water Conservation Fund, and the Recreation Trails Program. The Oregon Parks and Recreation Department is the administrator of these grant programs. The expenditure limitation for these grant programs is phased out of the current service level each biennium and then re-established at the anticipated level of available funding for the current biennium. This includes funding for previously awarded grants as well as anticipated grant revenues. The increased Other Funds expenditure limitation is inclusive of $10 million in net proceeds from issuance of Lottery revenue bonds for the Oregon Main Street program and $214,553 of costs associated with the issuance of the bonds. Lottery Funds expenditure limitation is increased by $414,812 for the payment of debt service on the bonds.

The budget increases Lottery Funds expenditure limitation by $984,597 for the awarding of grant funds to local government parks and recreation programs. This increase is additive to the current service level budget for local grant funding, bringing total authorized expenditures in line with available revenues anticipated as of the May 2021 revenue forecast.

Technical adjustments incorporated in the current service level moved five administratively related positions to the Central Services program: One position from Park Development, one position from Community Support and Grants, and three positions from Direct Services. Additionally, the approved budget includes the following actions to reallocate positions and associated funding between operating divisions of the agency to align resources with current operational needs. The agency-wide net impacts of the technical adjustments result in no change to the agency's overall expenditures or position authority.

- Community Support and Grants program decreases Lottery Fund expenditure limitation by $195,827 and eliminates one administrative support position (1.00 FTE) which is moved to the Central Services program to be used as a part of an administrative support pool.
- Direct Services program increases expenditure limitation by $2,056,313 Lottery Fund and $526,047 Other Funds, and establishes a net of eight positions (8.00 FTE) in the program that are transferred from the Park Development program.
- Park Development program decreases expenditure limitation by $1,973,101 Lottery Fund and $438,670 Other Funds, and eliminates a net of eight positions (8.00 FTE) in the program. The move of these positions consolidates all engineering staff in the Direct Services program.
- Director's Office program decreases expenditure limitation by $371,106 Lottery Funds and $389,668 Other Funds, and eliminates two positions (2.00 FTE) from the program. This moves the Internal Auditor position to the Central Services program and the Deputy Director for Operations to the Direct Services program.

Legislatively Approved Budget

The legislatively approved budget for the Parks and Recreation Department increased by $4.7 million (all funds), or 1.48%, from the legislatively adopted budget. Adjustments for previously approved salary and compensation plan changes account for $4.47 million of the total increase. The remaining $250,000 increase is from funding provided for work on the Hillsdale to Lake Oswego trail coming from American Rescue Plan Act monies.

WATER RESOURCES DEPARTMENT

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	35,217,838	39,873,994	58,566,215	69,089,805
Lottery Funds	7,563,194	13,470,490	9,499,510	9,499,510
Other Funds	100,263,082	73,956,617	121,883,596	125,596,247
Federal Funds	1,148,011	725,000	725,000	737,366
Total Funds	**144,192,125**	**128,026,101**	**190,674,321**	**204,922,928**
Positions	178	176	209	241
FTE	172.67	171.51	196.81	216.82

Overview

The Water Resources Department (WRD) issues and protects water rights and implements water quantity 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 – (31 positions, 30.02 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 – (68 positions, 64.87 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 – (63 positions, 57.44 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 – (33 positions, 30.84 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, 13.64 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 $85.6 million Other Funds for the expenditure of lottery revenue bond proceeds including bond issuance costs. An additional $9.5 million Lottery Funds expenditure limitation is also included for debt service on bonds issued. One time funding in the agency's budget includes $9.3 million General Fund and $20.5 million Other Funds from American Rescue Plan Act (ARPA) monies.

Exclusive of the additional Other Funds expenditure limitation for bond proceeds, Lottery Funds expenditure limitation for debt service, and one-time investments, the Department's operating budget is primarily General Fund, representing 78% of the operating program expenditures. 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 outside of bond proceeds and ARPA funding comprises 20.1% of the operating revenue for WRD. 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 $12.7 million of fee revenue, including $825,000 federal service contract revenues for the 2021-23 biennium.

Lottery Funds are used exclusively to pay debt service on lottery revenue bonds. Lottery Funds transferred to the department for debt service total $9.5 million for the 2021-23 biennium.

Federal Funds received through the Federal Emergency Management Agency (FEMA), Bureau of Reclamation, and other federal agencies represents about 1.2% 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 effect 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. There were drought declarations made by the Governor for 15 counties in 2020 and for 25 counties in 2021.

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 77.2% of the operating budget in the current biennium. It is likely that this trend will continue unless alternate ongoing funding is identified.

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 future biennia.

The state of water supply infrastructure is a growing area of concern. Many local governments and local water districts are faced with the prospect of repair or replacement of aging infrastructure, and the hardening of infrastructure to resist natural hazards including earthquakes and wildfire. There is capacity within existing state loan and bonding programs for the financing of public works projects, however the ability of district constituents to support the costs of these major projects varies widely throughout the state. The majority of bond supported funding passing through the agency is to support the planning and implementation of water supply infrastructure projects throughout the state.

Legislatively Adopted Budget

The legislatively adopted budget for the Water Resources Department totals $190,967,321, which represents a $46.4 million, or 32.1%, increase from the legislatively approved budget for the 2019-21 biennium. The budget is a $62.6 million, or 48.9%, increase over the current service level. The budget supports 209 positions, 196.81 FTE.

Expenditure authority for lottery revenue bond proceeds totaling $69.3 million that was approved for bond-funded projects in the 2019-21 biennium was phased-out of the 2021-23 biennium budget. $43 million of this was due to lottery revenue bonds not being issued in the prior biennium. Offsetting this reduction was the establishment of $69 million in new bond funded expenditures for the 2021-23 biennium. When added to the $16.6 million for proceeds of bonds issued in prior biennia, but not yet expended, the adopted budget includes Other Funds expenditure authority for bond funded projects totaling $85.6 million, or 44.9%, of the 2021-23 biennial budget for the Department. Lottery Funds debt service expenditures have increased at a compound growth rate of 54.8% since the 2013-15 biennium. Lottery Funds supported debt service totals $9.5 million in the 2021-23 biennium.

Two vehicles are used to distribute the new bond proceeds in the agency's budget. An increase of $40.6 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, $30 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. The Legislature had approved $15 million in bond funding for this purpose in the prior biennium, but those bonds were not sold due to the disruption of Lottery revenues during the pandemic. The $30 million total in net bond funding is ostensibly the sum of $15 million for the new biennium and $15 million to replace the funding that was not available in the prior biennium. Of the total, $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 $99.4 million. This is also a reestablishment of funding that was approved in the prior biennium, but was not completed due to the cancellation of the lottery revenue bond sales. $600,000 was includedfor bond issuance costs.

The second increase of $28.4 million in Other Funds expenditure limitation is 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, $443,481 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 $14 million is for a grant to the City of Newport for the planning, environmental permitting, and design costs of replacing the Big Creek Dams. Both of these are, again, replacement for bond funding that was not completed in the prior biennium. The exception to this is that the funding for the City of Newport has been increased by $10 million from the $4 million that had been approved in the prior biennium.

In addition to the new bond funding, the budget includes $16.6 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	2021-23 Remaining Unspent Funds
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	$700,000
Water Supply Development (SB 839) Grants and Loans	2017-19	$15,000,000	$11,500,000
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	$1,700,000
For water supply projects at the Santiam Water Control District	2017-19	$1,200,000	$1,200,000
Total		$24,200,000	$16,600,000

In addition to the $700,000 in bond proceeds carried forward for project feasibility studies and planning, the Legislature included a one-time $500,000 General Fund appropriation for making grants to pay the qualifying costs of planning studies performed to evaluate the feasibility of developing a water conservation, reuse or storage projects.

Two infrastructure project-specific items were provided funding in the budget in addition to bond funded projects. A $250,000 General Fund appropriation was made to WRD for distribution as a grant to the Nesika Beach Ophir Water District. The district currently serves approximately 560 connections which includes mostly residential homes and some businesses. The funds will be used to extend a water pipeline to a new firehouse near Ophir. Additionally, a $6 million allocation of American Rescue Plan Act funds was made to WRD for a grant to

Umatilla County for the Ordinance Project. The Ordnance Project is the 3rd and final regional Columbia River Project of those initially proposed in 2015. This project provides water supplies to industrial, domestic, and food production uses in the central project region. The other 2 projects (East Project and West Project) were completed in 2020. The Ordnance project includes enough water to restore 20,000 acres of farmland and stabilize and restore the Ordnance Alluvial and Ordnance Basalt Critical Groundwater Area aquifers to ensure drought and climate change resiliency in the mid-Columbia region of Oregon.

To address the impact of investment, or underinvestment, of water and its impact on economies, A $350,000 General Fund appropriation was provided to the Water Resources Department to allow the agency to contract with a third party for a business case assessment that examines the economic value that the use of water provides in Oregon, the impacts of not investing in Oregon's natural and built water infrastructure, and the associated need for continued infrastructure investments. The intended audience for the report is to include elected officials, local and state government, and the general public.

Several budgetary provisions were included by the Legislature to address water planning activities at the local, regional, and statewide levels. A one-time General Fund appropriation of $500,000 was included for distribution as a grant to Umatilla County for the purpose of implementing agreements of the Columbia River - Umatilla Solutions Task Force. The Task Force objectives include the identification of options to increase the utilization of Columbia River water for in-stream and out-of-stream uses in the Umatilla Basin without negatively impacting instream flows needed for fish species that are technically, economically, legally, and politically feasible and that provide both economic and environmental benefits that support other water-related planning efforts.
An additional one-time General Fund appropriation of $500,000 was provided to the Department to engage Oregon Consensus to convene a process to develop a framework and path for state-supported water planning and management at the water region/basin level. The appropriation is for facilitation support and may include funding for regional convenings and support for other entities and organizations to participate in the process as appropriate. A budget note was included in the agency's primary budget bill (SB 5545) in conjunction with the funding:

> <u>Budget Note</u>
> Oregon Water Resources Department is directed to use provided funding to contract with Oregon Consensus to convene a workgroup comprised of a balanced membership including, but not limited to, conservation groups, agricultural water users, municipal water users, environmental justice organizations, tribal interests and state agencies including Water Resources Department and the Oregon Department of Fish and Wildlife to consider regional water management opportunities that build on the 100 Year Water Vision and further the goals of the Integrated Water Resources Strategy.

A separate one-time General Fund appropriation of $200,000 was made to support the establishment of a limited-duration position (1.00 FTE) and associated costs for the coordination and administration work performed by the Water Resources Department related to the Oregon Consensus work with regional water planning and associated convenings.

The budget includes a one-time $200,000 General Fund to support current participating entities in the Place-Based Planning program. These include the Harney County Watershed Council in the Malheur Lake Basin, Union County in the Upper Grande Ronde Sub-Basin, Gilliam Soil and Water Conservation District in the Lower John Day Sub-Basin, and the Seal Rock Water District in the Mid-Coast Basin. Place-based planning is voluntary, locally led, and tailored to specific water resource needs and challenges of the location in which planning efforts take place. Participating communities are required to build a collaborative and inclusive process; gather information to understand water resources and identify knowledge gaps; examine current and future water needs for people, place, and nature; identify and prioritize strategic, integrated solutions to addressing water needs; and develop a place-based integrated water resources plan. In addition, an allocation of $1 million of American Rescue Plan Act funding is provided to expand support and development of place-based planning efforts.

A further one-time General Fund appropriation of $450,000 and the establishment of a limited-duration position (1.00 FTE) was approved to provide facilitation, document development, and staffing support for the 2022 update of the Integrated Water Resource Strategy.

There were two 2021 measures adopted by the Legislature that dealt with fees charged by the Water Resources Department. HB 2142 increased fees that support right processing and dam safety programs by approximately 17.4%. These fees were last increased in 2017. The increased fees are anticipated to generate an additional $564,549 Other Funds revenue in the upcoming biennium. Even with the fee increase, the revenue in the program was insufficient to support the total authorized positions in the program. A reduction of five positions (6.33 FTE) was taken in the program for the 2021-23 biennium. However, it was determined that this level of staffing was appropriate for the current workload of the remaining positions. HB 2143 increased the annual fees on hydroelectric projects. WRD estimates that the fee increase will result in an additional $759,344 Other Funds revenue in the 2021-23 biennium. Of the total hydroelectric fees collected by WRD, roughly 9% is retained by the department. The remaining funds are transferred: 25% to the Oregon Department of Fish and Wildlife, and 66% to the Department of Environmental Quality.

Fee revenue continues to shrink as percentage of the ongoing operating revenues for the Water Resources Department. A $3 million allocation of American Rescue Plan Act funds was made in the budget to be used by the department to support fee-based programs during the 2021-2023 biennium and to provide facilitation for stakeholder engagement as the Department works with stakeholders to develop more sustainable, long-term funding mechanisms to support the agency from fee-based programs.

Funding approved to support the cost to migrate information technology hardware and services to the state data center during the second special session of 2020 was biennialized and brought forward to the 2021-23 biennium at a cost of $215,000 General Fund. The agency's current network and server resources are beyond their useful life and have resulted in service interruptions. The increased funding supports the move of networking equipment, network operations, and database hosting. In addition, the information technology capacity of the agency has been expanded by adding a systems analyst position (0.88 FTE), a database administrator position (0.88 FTE), and a records officer/coordinator position (0.88 FTE) at a cost of 593,781 in the 2021-23 biennium. The positions will be used for the development of electronic records tools and process, migration of paper records to electronic, and support for systems that are moved to the state data center.

Two General Fund appropriations were made in response to recommendations made by the Racial Justice Council: a $1 million appropriation for equitable water access and $500,000 for Indigenous energy resiliency. These investments focus on exploring water needs of underrepresented communities of color, addressing Indigenous treaty water rights water scarcity, hydropower, and ecosystem services.

Additional staffing and funding for contracted services for ongoing analyses of seismic, flood, internal erosion, and other safety risks, and prioritization of dam repair and funding was included in the budget for the Dam Safety program. The Legislature authorized the establishment of two professional engineer positions (1.76 FTE) at a cost of $520,654 General Fund in the 2021-23 biennium and a one-time investment of $1 million General Fund for contracted professional engineering services. American Rescue Plan Act funding of $4 million is included in addition to the General Fund to contract for professional engineering services to perform flood methodology and inundation assessments for dams and engineering analyses on dams.

Supplemental to the position and engineering support for the Dam Safety program, an allocation of $500,000 of American Rescue Plan Act funds was made to the department to create a program to work with local governments to find and assist with funding to meet fish passage requirements for dam upgrade projects.
WRD identified the need for additional staffing resources due to the number of water rights currently issued, increased changes in use and points of diversion, and illegal water use. User fee revenue has been insufficient to support the ongoing operational needs. The adopted budget established five new Assistant Watermaster positions and a Deputy Division Manager position for the Field Services division at a cost of $1,297,064 General

Fund and $3,118 Other Funds in the 2021-23 biennium. Additionally, $78,394 General Fund was added to accommodate the upward reclassification of eight existing positions. The assistant watermaster positions will be allocated one to each water region in the state.

A third basin groundwater team was approved for the 2021-23 budget. The Legislature authorized the establishment of seven permanent positions (6.16 FTE) to expand the agency's capacity for the development and evaluation of groundwater basin studies in cooperation with the U.S. Geological Society and the Oregon Department of Geology and Mineral Industries. The package provides $1,401,470 General Fund for these position costs in the 2021-23 biennium. Each basin study takes between five and six years to complete. This continues and expands upon the investments that were made for this same purpose in the prior biennium to conduct the studies. The package also includes a one-time investment of $600,000 General Fund for professional services contracting related to the studies.

A number of actions taken to address basin specific issues were expressed in the budget. A communications and policy development position was authorized to be established in the Director's office at a cost of $422,190 General Fund to work on complex water basin issues and help implement agency priorities in priority water basins. This includes but is not limited to the complex issues in the Deschutes and Willamette River basins and other water basins determined by the department. Additionally, a Willamette Basin Coordinator position in the Director's office at a cost of $221,040 General Fund. To allow the agency to begin the work required to implement proposed changes in water rights held by the U.S. Army Corps of Engineers for water held in 13 reservoirs in the Willamette River Basin. Associated with these two positions, $400,000 General Fund was included for professional contracting capacity for facilitation services.

A General Fund appropriation of $706,607 and the authorization for the establishment of a Field Hydrologist position was added to support the implementation of a Harney Conservation Reserve Enhancement Program that will provide incentives for voluntary non-use of groundwater either on a temporary or permanent basis in the Harney Basin. The program will work within the federal Conservation Reserve Program that is a federally funded voluntary program that provides payments to agricultural producers to provide specific conservation benefits. The associated position costs are $206,207. Of the total funding, $500,000 will be used to provide a 20% state cost share for the enrollment of private lands in the Harney Basin in the program. Federal payments will be made directly to program participants.

American Rescue Plan Act funding of $3 million was allocated to WRD to support surface water and ground water data collection field equipment utilized to inform water management and planning that includes, but is not limited to, upgrades to gaging stations, adding observation wells in priority basins and updating aging hydrographic equipment.

The budget authorizes the establishment of a Public Information Coordinator position at a cost of $210,706 General Fund to provide external and internal communications on water supply and safety issues. This position will provide coordination, planning and outreach on earthquakes, drought, floods, climate change, and dam failures to better prepare for these risks. Additionally, the establishment of a Training and Safety Coordinator position in the Administrative Services program was authorized at a cost of $169,825 General Fund to develop and implement a general safety program that will be applied agency wide.

The Water Resources Department currently has a significant backlog in the processing of contested cases related to water rights decisions. To address this issue, the Legislature provided a one-time increase in the General Fund appropriation to the department of $2.2 million and included the authorization to establish a limited-duration position (1.00 FTE) to facilitate the referral and completion of administrative hearings or other procedures to alleviate the backlog. This funding is in addition to an ongoing adjustment to the agency's budget that was made by increasing support for legal costs by $800,000 General Fund to address the ongoing legal costs that have exceeded the agency's current service level budget for these expenditures over several biennia.

Substantive 2021 legislation with a budgetary impact

HB 2018 directed the Water Resources Department to enter into a cost-matching agreement with the United States Geological Survey to develop and publish ground water budgets for all major hydrologic basins in Oregon. Additionally, the bill requires WRD to contract for a peer-reviewed report on statewide consumptive water evaporation from all major reservoirs between 1984 and 2020; expand the ground water level monitoring network; produce reports that quantify ground water recharge for all major hydrologic basins in Oregon; produce maps and datasets that quantify open water evaporation from all major reservoirs in Oregon; collect and process data regarding baseline ground water levels and use; and assess the time and cost to conduct ground water basin studies. WRD staff are also directed to serve as community engagement coordinators to help communities provide and use data collected. An appropriation of $2,386,808 General Fund and the authorization for the establishment of nine permanent, full-time positions (5.75 FTE) was included in the measure.

HB 2145 established the Water Well Abandonment, Repair and Replacement Fund to provide financial assistance to permanently abandon water wells, or to repair and replace water wells used for household purposes. The measure outlines various requirements related to oversight and permitting of wells; and increases the fee for report forms submitted to the Water Resources Department when a well is constructed or modified from $225 to $350. This bill also extends continuing education requirements for well contractors, and requires the Water Resources Department to report to the Legislature information on the agency's oversight of well drilling activities. The measure directs WRD to review every well log submitted to the Department when a well is constructed or modified within 120 days of submission, and to identify any deficiencies and assess compliance with construction and alteration standards. The department estimates that 4,000 to 5,000 well logs will need to be reviewed annually, to comply with the provisions of the bill. An appropriation of $675,415 General Fund and the authorization to establish three positions (2.64 FTE) was included in the measure. The appropriation includes $100,000 of one-time funding for deposit in the Water Well Abandonment, Repair, and Replacement Fund for the Department to provide financial assistance as described in the bill. The remaining funding is for two permanent full-time Natural Resource Specialist 2 positions to review well report logs and a new permanent full-time Natural Resource Specialist 3 position to assist with statute and rule development.

In addition to the $100,000 General Fund appropriation made in HB 2145, an allocation of American Rescue Plan Act monies of $2 million was provided for deposit in the Water Well Abandonment, Repair and Replacement Fund established by HB 2145. In conjunction with this, an Other Funds limitation of $2.1 million was provided to the agency for expenditure of these ARPA monies deposited in the fund.

HB 3092 established a grant program to reimburse owners of domestic wells in the Greater Harney Valley Groundwater Area of Concern for certain costs of replacing, repairing, or deepening domestic wells affected by declining ground water levels. The measure established the Domestic Well Remediation Fund and provided a $500,000 General Fund appropriation to the Water Resources Department for deposit into the fund. A corresponding increase in the agency's Other Funds expenditure limitation was included in the budget for the expenditure of the monies from the fund.

HB 3103 allows the holder of a water right certificate that authorizes water storage, to change the type of use identified in the water right without losing priority of the right. A $485,100 General Fund appropriation was included in the measure to allow Water Resources Commission to engage professional facilitation services, design a process for stakeholder meetings, and hold six to twelve meetings with at least 20 diverse stakeholders between the effective date of the Act and June 30, 2023, for the purpose of finding stakeholder agreement on a path forward for transfers of stored water and related legislative proposals.

Legislatively Approved Budget

The legislatively approved budget for the Water Resources Department totals $204.9 million for the 2021-23 biennium. The budget increased by $14.3 million, or 7.5%, from the 2021-23 legislatively adopted budget and includes an increase of 32 positions (20.01 FTE), for a total of 241 positions (216.82 FTE) for the biennium. Compensation plan adjustments account for $1.9 million (all funds) of the increase. Major 2022 session investments included a General Fund appropriation of $9 million and the establishment of 29 positions (18.13 FTE) to expand the capacity of the agency related to water rights enforcement activities due to cannabis production in Oregon.

An additional General Fund appropriation of $3.75 million for the capitalization of the Water Well Abandonment, Repair, and Replacement Fund and the establishment of three limited-duration positions (1.88 FTE) for program administration, technical evaluations, and reporting. Corresponding Other Funds expenditure limitation was also increased to allow expenditure of monies from the fund.

OREGON WATERSHED ENHANCEMENT BOARD

Analyst: Stayner

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	20,420,000	52,526,718
Lottery Funds	90,857,290	77,321,533	94,379,136	94,776,334
Other Funds	19,070,646	2,263,984	14,863,984	29,863,984
Federal Funds	45,427,240	32,677,681	48,127,768	48,251,444
Total Funds	**155,355,176**	**112,263,198**	**177,790,888**	**225,418,480**
Positions	41	32	36	46
FTE	35.75	32.00	36.00	42.55

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 if 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 stabilize and increase slightly in the 2021-23 biennium over the 2019-21 biennium, when lottery funds revenues were significantly impacted by the decision to close bars and restaurants in response to the COVID public health emergency. Revenues from offering sports betting are now part of the lottery funds revenue stream, however these funds are dedicated to state employee retirement costs.

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 $35 million Federal Funds from PCSRF would be available for expenditure in 2021-23. This amount includes one year of federal funding and $13 million of carry-forward funds. Almost $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.

Legislatively Adopted Budget

The adopted budget for OWEB is divided into two program areas, Grants and Operations. The 2021-23 legislatively adopted budget for Operations included a total of $8.9 million in Operations Lottery Funds, $18,697 Other Funds, $3.1 million Federal Funds, and 36 positions to support administration of the grant program. OWEB requested that two limited duration positions continue into the 21-23 biennium, but only the Focused Partnership Coordinator was continued from the previous biennia, with instructions that the Conservation Outcome Specialist could be funded during the 2022 regular legislative session if revenues remain strong. In addition, $670,000 General Fund was added in HB 5006 to fund three limited duration positions to process $19.8 million in wildfire recovery grants.

The legislatively adopted budget for the Grant program established an $85.5 million Lottery Funds grant fund for 2021-23, which is higher than 2019-21 due to revenue losses in 2020 resulting from bar and restaurant closures. The Grant program budget also includes $19.8 million General Fund, $14 million Other Funds, and $45 million Federal Funds. The Other Funds expenditure limitation increase is due to inclusion of $7 million expenditure limitation for potential Klamath Hydroelectric Settlement payments and $5 million expenditure limitation for potential Oregon Agricultural Heritage Program grants. The Federal Funds total of $45 million is comprised primarily of PCSRF federal funding. While OWEB has never relied on General Fund support, for the 2021-23 biennium, one-time funding was included in the OWEB budget to support wildfire recovery grants. These include $10,750,000 General Fund for wildfire recovery riparian and upland restoration grants, $5,000,000 General Fund for wildfire recovery floodplain restoration/reconnection grants, and $5,000,000 for a pass-through grant to the Eugene Water and Electric Board to pay for restoration activities in the McKenzie River basin.

The following table shows the legislatively adopted budget 2021-23 expenditure limitation for all Measure 76 Lottery Funds.

2021-23 Measure 76 Lottery Fund Expenditures

	M-76 LF 35% Operations	M-76 LF 65% Grants
Department of Agriculture	$10,375,039	
State Police / Fish and Wildlife Enforcement	$11,068,651	
Department of Fish and Wildlife	$6,768,156	
Department of Environmental Quality	$6,038,769	
Oregon Watershed Enhancement Board	$8,909,103	$85,470,033

Legislatively Approved Budget

The legislatively approved budget for the Watershed Enhancement Board totals $225.4 million for the 2021-23 biennium. The budget increased by $47.6 million, or 26.8%, from the 2021-23 legislatively adopted budget and includes an increase of 10 positions (6.57 FTE), for a total of 46 positions (42.57 FTE) for the biennium.

Major investments include:

- General Fund appropriations totaling $11.6 million and the authorization to establish three positions (1.77 FTE) to address drought conditions were provided during the 2021 second special session. An additional $239,000 General Fund and the establishment of a fourth position were provided during the 2022 legislative session.
- A General Fund appropriation of $10 million and corresponding Other Funds expenditure limitation to supplement existing funding for a program providing grants in support of voluntary water acquisitions was added. Authorization to establish a limited duration position and to extend the time of an existing limited duration position (0.94 FTE total) to support the program was also included.
- A $5.2 million General Fund appropriation and the establishment of a limited-duration position (0.63 FTE) to expand wildfire recovery grants for on the ground actions supporting the recovery of natural resource lands impacted by the 2021 wildfire season.
- A General Fund appropriation of $5 million for deposit in the Oregon Agricultural Heritage Fund and a corresponding $5 million Other Funds expenditure limitation from the fund to support a number of activities including landowner succession planning, financial support for conservation management plans, covenants, and easements, funding for and direct technical assistance leading to those plans, covenants, and easements. Authorization to establish three limited duration positions (1.57 FTE) to support the program was included with the funding.

TRANSPORTATION

PROGRAM AREA

DEPARTMENT OF AVIATION

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	3,888,794
Other Funds	20,221,517	18,078,054	21,527,031	22,772,182
Federal Funds	11,321,139	6,419,132	9,488,319	10,134,465
Total Funds	**$31,542,656**	**$24,497,186**	**$31,015,350**	**$36,795,441**
Positions	16	15	13	16
FTE	15.49	14.59	12.59	14.60

Overview

The Oregon 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, and also 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 and provides policy direction to the Department.
Key responsibilities of the Department 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 2021-23 biennium is $32.6 million, with 71% coming from taxes and fees and 29% from federal funds. Estimated revenue for the biennium represents a 12.3% decrease compared to 2019-21, which is largely due to the impact of the COVID-19 pandemic on aviation fuels tax and federal grant revenues.

A two-cent increase to jet fuel and aviation gas tax adopted in the 2015 session for funding the Aviation System Action Program (ASAP) was scheduled to sunset in 2022. HB 2434 (2021) eliminated the sunset to ensure continued funding for the ASAP. Under this measure, ASAP funding is distributed 75% to the Critical Oregon Airport Relief (COAR) Grant Program and 25% to the State Owned Airports Reserve (SOAR) Program. COAR grants are awarded to assist airports in Oregon with match requirements for FAA Airport Improvement Program grants; fund emergency preparedness and infrastructure projects; support aviation related economic development efforts; and assist commercial air service to rural Oregon. SOAR program funds are distributed to state-owned airports for safety and infrastructure improvements.

The Department is required to evaluate tall structures that have the potential to penetrate safety of flight airspace around airports to determine if these structures constitute hazards. These evaluations were traditionally conducted with no charge; however, the passage of SB 38 (2021) authorized the Department to establish a fee for tall structure evaluation. A fee of $100 per application will support an estimated 1,845 evaluations in 2022 and 2,704 in the 2023-25 biennium.

The COVID-19 pandemic has had a significant impact on aviation fuels tax revenue. The Bureau of Transportation Statistics shows average year over year nationwide aircraft fuel consumption dropping by 40% from 2019. The U.S Energy Information Agency predicts significant increases in aviation fuel consumption but the timing remains uncertain. The revenue forecast released by the Oregon Department of Transportation in April 2021 projected total 2022 aviation fuels tax revenue would be 82% of 2019 levels. As a result of diminishing revenues, the agency has been forced to take operational budget cuts including two administrative positions.

<u>Budget Overview</u>
The majority of the agency's operations budget is funded by the aviation fuels tax. Lower than normal aviation fuels tax revenue from the effects of COVID-19 has significantly impacted the agency's current service level. The agency has lost 14% of its full-time equivalent positions compared to pre COVID-19 levels. The availability of federal grants for capital construction projects is also uncertain causing the agency to reduce Federal Funds expenditure limitation by $1.8 million. The Aviation System Action Program was granted a more stable funding source with the passage of HB 2435 (2021), which eliminated the sunset on a 2 cent aviation fuels tax increase. Revenue for this program is projected to be $5.9 million in 2021-23.

<u>Legislatively Adopted Budget</u>
The Department of Aviation's legislatively adopted budget is $31 million, which is $527,306, or 1.7%, less than the 2019-21 legislatively approved budget. The budget includes reductions of $4.5 million in capital construction due to federal funding uncertainty and a reduction of $1.4 million Other Funds and two positions (2.00 FTE) due to lower than normal aviation fuel tax revenue as a result of the COVID-19 pandemic shutdown.

The budget also includes an increase of $3.1 million Federal Funds (Federal Aviation Administration) and $320,000 Other Funds (aircraft registration fees) for capital construction expenditures at the Siletz State Airport. This project includes rehabilitation of the runway and electrical system, which is needed to meet federal standards for safe operating conditions.

<u>Legislatively Approved Budget Update</u>
Based on actions approved during the 2022 regular session, the legislatively approved budget totals $36.8 million, which is a $5.8 million, or 18.6%, increase from the 2021-23 legislatively adopted budget. Most of the increase is due to three airport upgrade projects funded with General Fund as part of the Rural Infrastructure package authorized in HB 5202 (2022):

- $2.6 million for runway and electrical rehabilitation at the Cape Blanco State Airport
- $540,388 for distribution to the City of Salem for the Salem Municipal Airport upgrade
- $750,000 for distribution to Josephine County for a Jet A and Avgas aircraft fueling system at the Illinois Valley Airport

In addition, a $1.1 million Other Funds increase was approved to support the establishment of three permanent positions (Program Analyst 2, Administrative Specialist 2, and a Facilities Operations Specialist 1). These positions will support required airport safety inspections, replace antiquated and poorly functional equipment used in maintaining the 28-state owned and operated airports, and manage maintenance oversight. The legislatively approved budget also supports previously negotiated employee compensation adjustments.

DEPARTMENT OF TRANSPORTATION

Analyst: Deister

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	118,926,339	18,371,940	36,021,393	72,871,173
Lottery Funds	115,171,361	126,019,800	122,894,228	122,094,419
Other Funds	4,788,882,935	4,501,609,074	4,823,642,415	4,891,826,709
Other Funds (NL)	1,382,379,549	18,000,000	18,000,000	18,000,000
Federal Funds	310,512,126	126,003,195	125,930,118	126,040,626
Federal Funds (NL)	21,243,619	0	20,679,380	20,679,380
Total Funds	**$6,737,115,929**	**$4,790,004,009**	**$5,147,167,534**	**$5,251,512,307**
Positions	4,867	4,759	4,846	4,860
FTE	4,710.09	4,654.19	4,681.19	4726.03

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 state highway system is over 8,000 center line miles, 11% of Oregon's 74,000 miles of roads. The Delivery and Operation Division's activities are guided by a comprehensive set of long-range multi-modal transportation system plans developed in coordination with local and regional governments, transportation agencies and the public. The plans cover highways, mass transit, ports, freight and passenger rail, bike lanes, and pedestrian needs.

These plans help direct investment of transportation funding through various programs. All federally-funded transportation projects as well as many state-funded projects are included in the Statewide Transportation Improvement Program (STIP), which is developed and maintained under the direction of the Oregon Transportation Commission, and updated every three years through a public hearing process. Some highway projects included in the STIP 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 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

More than 94% of ODOT's available revenues are budgeted as Other Funds. ODOT's largest sources of revenue are motor fuel taxes ($1.4 billion), driver and vehicle licenses and fees ($1 billion), and weight-mile taxes ($858 million). Most of these revenues are constitutionally dedicated to the State Highway Fund and shared between ODOT, counties ($711.5 million), and cities ($529 million). Federal Funds from the Federal Highway Administration (FHWA), which are matched with state funds for highway projects and are also budgeted as Other Funds, amount to $1.8 billion of available revenue. Lottery bond proceeds account for $6.1 million in Other Funds revenue for local projects, and allocations of American Rescue Plan Act (ARPA) funding for specific projects at ODOT amounts to $124.3 million.

For 2021-23, total revenue from all sources is estimated to be $5.4 billion. Of this amount, $1.3 billion is projected to transfer to other state agencies and local governments, leaving $4.1 billion available for expenditure on state transportation and programs. Changes in driver behavior due to the COVID-19 pandemic had a major impact on State Highway Fund revenues between March and December 2020, resulting in a total reduction of $188 million. Over the course of the pandemic gasoline taxes decreased, while sales of taxable diesel fuel came in above forecast, while revenue collected by DMV also suffered, due to early pandemic field office closures and longer-term capacity limitations. Forecasts for 2021-23 are still uncertain due to the potential for surges in infection rates and the resulting possible changes in CDC guidance and consumer/driver behavior, depending on whether a significant percentage of the population continues to work or school from home.

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 un-refunded gas taxes paid for non-road use fuel, such as for lawnmowers.

Federal Funds that are budgeted as Federal Funds are allocated to Oregon for traffic safety, railroad projects and contracts, transit, and motor carrier safety; the legislatively adopted budget amounts to $126 million Federal Funds for 2021-23. This amount could increase should Congress pass another extension of federal surface transportation authorization or a federal infrastructure funding package.

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. Non-limited funds – both Other Funds Non-limited and Federal Funds Non-limited – are used for debt service payments and loans from the Oregon Transportation Infrastructure Bank.

Of the Department's $72.9 million General Fund appropriation, $18.4 million pays for debt service on the now completed State Radio Project and highway safety projects approved in 2015. Another $15.7 million is for costs associated with removing debris from the 2021 wildfire season, and $2 million for graffiti and litter mitigation.

HB 2017 (2017) increased taxes and fees dedicated to the State Highway Fund and established new taxes to support multimodal transportation. Key revenue features established in HB 2017 included:

- An increase to 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. The measure also made commensurate increases in weight mile taxes, although these are not subject to trigger requirements.
- Additional registration fee and title fee surcharges of $13 and $16 respectively, effective January 1, 2018, and a new system of tiered registration and title fees based on vehicle fuel efficiency effective January 1, 2020 with increases on January 1, 2022.
- 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.
- A 0.1% payroll tax effective July 1, 2018, with revenue deposited into a newly-established Statewide Transportation Improvement Fund to be used mostly for competitive- and formula-based grants to local public transit agencies.
- An excise tax of $15 on the sale of adult-size bicycles valued at $200 or more effective January 1, 2018; proceeds of the tax are deposited into the Multimodal Active Transportation 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. The measure is estimated to produce $5.3 billion in revenue over ten years, including $500 million in State Highway Fund revenue when fully implemented in 2024. About half of this amount will go to local governments to fund local road and street maintenance and improvements.

Budget Environment

Oregon's 2020 Labor Day fires constitute the largest and most expensive disaster in the state's history. ODOT was tasked with Hazard Tree removal (an eligible State Highway Fund activity) and Structural Debris removal; the latter - and state match requirements per the Federal Emergency Management Agency (FEMA) - required General Fund support by the Emergency Board in 2020 and 2021, as well as additional funding in the agency's 2021-23 legislatively adopted budget for work that remains to be completed. Some uncertainty exists concerning future Federal Funds for transportation. The funding extension authorized for the Fixing America's Surface Transportation (FAST) Act ends in September 2021. Congress is currently negotiating an infrastructure funding package that would augment resources to states, should it pass.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Department of Transportation totals $5.1 billion, which is $1.6 billion, or 24%, less than the 2019-21 legislatively approved total funds budget. The decrease is accounted for by the bulk of wildfire-related clean-up efforts being budgeted in the previous biennium, along with a large refunding of previously issued bonds (see Other Funds Non-Limited expenditures in the 2019-21 biennium). The budget supports 4,846 positions (4,681.19 FTE).

Major features include:

- Funding for estimated remaining wildfire debris removal
- Support to extend limited duration positions in the Driver and Motor Vehicles (DMV) division through February of 2021
- Lottery Funds expenditure limitation for administration of Rural Veteran Healthcare Transportation grants to local transit providers
- Capital improvements for maintenance stations
- State and local transportation projects funded with ARPA dollars and lottery bond proceeds.

Legislatively Approved Budget Update

Actions taken during the 2022 regular legislative session resulted in a $104.3 million total funds increase from for the 2021-23 legislatively approved budget level; the number of budgeted positions grew by 14, and the extension of existing limited duration positions resulted in Full Time Equivalent positions increasing by 44.84. Of the increase, $38.8 million was attributable to employee compensation adjustments, and $36.8 million was due to additional General Fund investments for various purposes, including wildfire debris removal, wildlife corridor infrastructure, damaged infrastructure remediation, and exchanging General Fund for Other Funds for rehabilitation of the Lake County Railroad.

Details of expenditures are in the division analyses that follow.

Delivery and Operations (formerly Highway Division)

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	93,750,000	0	17,650,000	44,150,000
Other Funds	3,259,479,520	2,932,867,799	3,220,151,384	3,261,860,876
Federal Funds	150,000,000	0	0	0
Total Funds	**$3,503,229,520**	**$2,932,867,799**	**$3,237,801,384**	**$3,306,010,876**
Positions	2,735	2,733	2,734	2,748
FTE	2,667.70	2,659.44	2,660.19	2,670.53

<u>Program Description</u>

The Delivery and Operations program is comprised of two separate programs – Maintenance and Construction. Maintenance provides for a safe and usable highway system through routine daily activities of maintaining, preserving, repairing, and restoring existing highways. These activities include surface and shoulder repair, drainage, roadside vegetation control, snow and ice removal, bridge maintenance, traffic services and emergency repairs. The purpose of the Operations program is to improve the safety and efficiency of the transportation system, through maintenance and improvements such as traffic signals, signage, lighting, and landslide and rock-fall mitigation. Incident response, demand management, and services such as the TripCheck.com traveler information system are also included in this program.

Construction programs include transportation projects that are approved within the STIP. The following categories of projects are included in construction programs:

- Preservation - preserves the pavement surface, maintains safety, and reduces maintenance costs on roughly 7,350 centerline miles of Oregon state highways.
- Bridge - inspection, preservation, reconstruction, seismic retrofit, overpass screening, design standards, load capacity evaluation and assessment for more than 2,700 highway bridges, overcrossings, railroad under-crossings, tunnels and culverts.
- Modernization - enhancement or expansions of the transportation system to facilitate economic development, reduce congestion, and improve safety.
- Highway Safety and Operations - operation improvements and system management measures that reduce the number of fatal and serious injury crashes on problematic highway segments or intersections.
- Local Government – funding for local government projects that are funded by the state or federal government.
- Special Programs - miscellaneous projects that may not fall under other categories, as well as indirect, technical and program support for programs in the Maintenance and Operations division.

The categories of the Delivery and Operations Division budget are:

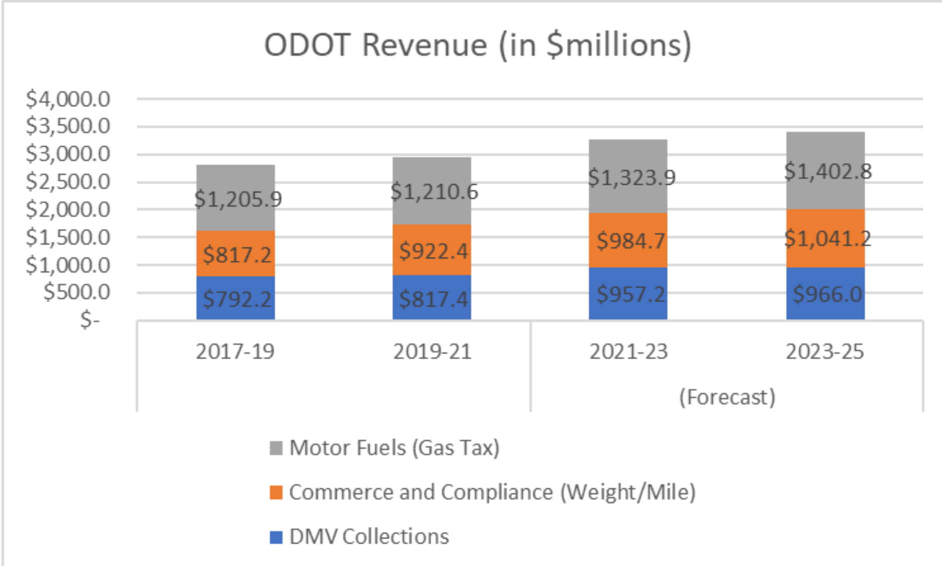
- Highway Maintenance and Emergency Relief – 1,375 positions (1,313.72 FTE). There are two types of general highway maintenance functions within this division: reactive and proactive. Reactive service generally fixes existing problems and is incident driven. Proactive services save money later. These 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 – 133 positions (133.00 FTE). This program aims to conduct resurfacing treatments at the most cost-effective time in the pavement lifecycle, 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 – 184 positions (184.00 FTE). This program 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's 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 are considered priceless assets and ODOT has chosen functional obsolescence and high maintenance costs as a fair trade-off for preserving them.
- Highway Operations – 194 positions (192.79 FTE). This program 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 – 199 positions (199.00 FTE). This program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. Activities include 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 – 595 positions (583.68 FTE). These programs support 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, which provide 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 – 54 positions (54.00 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 fund local and discretionary transportation projects that account for 25% of STIP funds and up to 30% of road projects statewide.

Revenue Sources and Relationships

Highway programs are supported primarily 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 2021-23 legislatively approved budget includes $17.7 million General Fund for debris and graffiti removal, and $880 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.



April 2021 ODOT revenue forecast, assuming fuel tax increase "triggers" per HB 2017 are achieved

Budget Environment

Highway infrastructure, including pavements, bridges, and traffic control systems, continues to age and requires more maintenance and a larger share of ODOT's revenue each year. While HB 2017 (2017) provided an increase in revenue, aging infrastructure, population increases, and uncertainties resulting from COVID-19 have the potential to dampen the impact of what any such additional revenue can buy. Since the start of the 2017-19 biennium, the division's primary focus has been implementation of HB 2017 (2017). Between 2017 and 2020, actual expenditures on HB 2017 projects have exceeded $97 million, with a further $650 million in expenditures forecasted through 2023 Specific expenditures by project type can be found in the agency's semiannual report, available on ODOT's website.

Although this work continues, the urgency of 2020 wildfire debris and hazard tree removal has occupied a significant amount of time and resources for ODOT. By early August 2021, hazard tree evaluations throughout the state were nearly complete, and 2,571 home sites (of an estimated 3,022 participating) had been cleared. The work related to 2020 wildfire cleanup is slated to continue in 2021-23, and interaction with FEMA to report, identify, and collect available reimbursement may continue well beyond the biennium.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Delivery and Operations Division is $3.24 billion total funds, and 2,734 positions (2,660.19 FTE). The budget is $265 million, or 7.6%, less than the 2019-21 legislatively approved budget. The following table provides total funds expenditure detail for Delivery and Operations Division programs:

Delivery and Operations Division Programs

	2017-19 Actual	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Maintenance	564,754,015	1,339,294,309	574,561,732	756,839,471	791,161,505
Preservation	258,087,356	406,599,502	446,173,142	446,172,144	447,418,515
Bridge	251,586,832	524,299,935	494,371,408	494,368,271	499,678,176
Highway Safety and Operations	246,720,954	389,273,710	435,669,414	515,648,722	517,450,009
Modernization	198,259,374	194,987,583	141,646,624	173,606,043	175,600,098
Special Programs	289,478,396	429,607,976	537,365,821	536,884,954	542,527,877
Local Government	227,500,060	219,166,505	303,079,658	314,281,779	332,174,696
Total	**$2,036,386,987**	**$3,503,229,520**	**$2,932,867,779**	**$3,237,801,384**	**$3,306,010,876**

General Fund in the amount of $15.65 million was appropriated and Other Funds expenditure limitation of $169.6 million was added for further clean up and debris removal efforts for 2021-23 estimated costs of the Labor Day 2020 wildfires. The Other Funds expenditure limitation is for Highway Fund-eligible expenses, which are being funded upfront by ODOT but anticipated to be reimbursed by FEMA. The General Fund is for non-Highway Fund eligible debris removal costs and cultural resource assessments prior to removal and recovery actions. Another $2 million General Fund was appropriated for graffiti and litter removal along Region 1 (Portland/Metro) area highways and interstates. Other Funds expenditure limitation was increased for the Local Government program for a bike and pedestrian bridge in the City of Sherwood ($4.1 million) and improvements to the Fanno Creek Trail maintained by Tualatin Hills Park and Recreation District ($2.1 million); both of these projects are funded with lottery bond proceeds.

American Rescue Plan Act funds budgeted in the Department of Administrative Services were designated to be transferred to ODOT and budgeted as Other Funds for the following projects:

- Oregon 213/82nd Avenue improvements - $80,000,000 in Highway Safety and Operations limitation
- Newberg Dundee Bypass - $32,000,000 in the Modernization limitation
- Hood River/White Salmon Interstate Bridge - $5,000,000 in the Local Government limitation

Legislatively Approved Budget Update

Based on actions approved during the 2022 regular session, the 2021-23 legislatively approved budget for Delivery and Operations is a $68.2 million total funds increase (2.1%) from the legislatively adopted budget level. An additional $25 million General Fund augments the $14.4 million appropriated in the 2021-23 legislatively adopted budget for debris removal from the 2020 wildfire season. Expenditures for cleanup activities had not followed originally anticipated schedules; instead of most payments for work being made in 2019-21 as originally anticipated, only $38.4 million of a total $93.75 million General Fund appropriation was expended in that biennium. A $1.5 million non-recurring General Fund appropriation was also approved to remediate damage sustained to North Fork Road in Marion County during the 2020 wildfires. In addition, the Legislature approved $7 million General Fund for deposit into a subaccount of the Oregon Transportation Investment Fund for projects that reduce collisions between wildlife and vehicles. Corresponding Other Funds expenditure limitation was also approved.

Other Funds expenditure limitation of $3.6 million and 12 permanent positions (9.42 FTE) were approved to accommodate Oregon's share of staffing and planning responsibilities related to the Interstate Bridge Replacement Program between Oregon and Washington. The passage of HB 4139 (2022), which requires ODOT to assess the greenhouse gas emissions from certain construction materials, resulted in additional Other Funds expenditure limitation of $236,219 and two permanent positions (0.92 FTE). Another $15.9 million in Other Funds expenditure limitation was approved for projects to be funded with American Rescue Plan Act funds transferred to ODOT from the Department of Administrative services, as follows:

- $3,000,000 to Marion County Public Works Department for Safety Corridor improvements
- $2,960,000 to the City of Canby for the extension of Walnut Street
- $9,400,000 to Crook County for extension of Combs Flat Road
- $500,000 to the City of Dufur for sidewalk renovation

Driver and Motor Vehicles Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	262,932,027	252,470,053	256,389,780	267,857,406
Federal Funds	2,111,225	2,204,752	2,204,752	2,204,752
Total Funds	**$265,043,252**	**$254,674,805**	**$258,594,532**	**$270,062,158**
Positions	989	879	965	965
FTE	911.30	859.50	885.75	920.25

Program Description

Driver and Motor Vehicles (DMV) licenses and registers nearly 2.6 million drivers and motor vehicles annually and enforces motor vehicle-related laws. ODOT operates 60 DMV field offices statewide, along with a Customer Services group which assists the general public and government agencies such as law enforcement and courts that complete transactions and deliver training to field office staff. Policy, procedures, third party agreements for testing and other services, business regulation and administrative rules are developed and administered through the Program Services group. Innovation and Planning is responsible for information technology projects and business tools.

Revenue Sources and Relationships

DMV is supported by fees levied for the various services the program provides. Passenger vehicle registration fees are the largest single revenue collected ($736.7 million), followed by title fees ($117.7 million) and driver licenses ($99.9 million). A smaller amount of revenue comes from various other sources. These revenues are deposited in the State Highway Fund, Transportation Operating Fund, and 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 78% of the $1 billion in revenues collected by DMV are projected to be transferred to the State Highway Fund, cities, counties, and other state agencies.

Budget Environment

The DMV program is influenced by population and economic growth as well as legislative policy. Implementation of Real ID and legislative approval of Drivers Licenses for All (HB 2015) in 2019 created additional demand for services, in part from a segment of residents that may not have been previously served. The COVID-19 pandemic resulted in temporary suspension of all field office services in 2019-21, with reinstatement at partial capacity in the spring of 2021. Pent up demand for renewal of licenses, auto registrations, driver tests, and an expected surge in demand for Real ID credentials in advance of the May 3, 2023 deadline necessitated an extension of limited duration personnel that were initially approved during the previous biennium. Going forward, the Driver and Motor Vehicles Division (DMV) will attempt to accommodate customers through a mix of online, appointment and walk-in service models.

The DMV Service Transformation Project is in the final phase of a $90 million transformation of DMV computer systems, business processes, and related technologies, which began in the 2015-17 biennium. Modernized information systems enable more online and self-service capabilities as well as streamlined transaction processing. Other Funds expenditure limitation of approximately $16 million is associated with this effort, which is expected to be completed in the 2021-23 biennium at a total cost of $90 million.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $258.6 million is $6.4 million, or 2%, lower than the 2019-21 legislatively approved budget and includes 965 positions (885.75 FTE). The Legislature approved nearly $4 million Other Funds to continue 84 limited duration positions (25.25 FTE) that were initially approved in the previous biennium to meet continuing customer service demands for Real ID and driver licenses. In addition, the Legislature ratified a $30 Real ID fee surcharge associated with the issuance, renewal or replacement of a Real ID document, which requires a higher level of verification and administrative oversight. Passage of SB 300 (2021) establishes a State Board of Towing with regulatory authority over towing businesses in Oregon. Additional Other Funds expenditure limitation of $298,451 and two positions (an Operations and Policy Analyst and Compliance Specialist) were incorporated into the legislatively adopted budget for this purpose. These positions will be permanent, full time in subsequent biennia.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a 4.4% increase from the legislatively adopted budget, owing to approved employee compensation adjustments and the extension of 46 limited duration positions (34.50 FTE) to meet continuing demand for Real ID and other driver credentials in the DMV division. Associated Other Funds expenditure limitation was increased by $5.2 million to fund the positions, which are supported by fees for Real ID and other driver credentials.

Commerce and Compliance Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	72,929,958	77,673,013	77,656,725	80,217,355
Federal Funds	4,000,000	8,000,000	8,000,000	8,000,000
Total Funds	**$76,929,958**	**$85,673,013**	**$85,656,725**	**$88,217,355**
Positions	294	293	293	293
FTE	294.00	292.48	292.48	292.48

Program Description

The Commerce and Compliance Division regulates the commercial transportation industry on Oregon rails and public roads. That industry ranges from one-truck owner-operators to carriers with large fleets from throughout the United States and Canada, including approximately 27,000 trucking companies with 495,000 trucks registered to operate in Oregon. Additionally, the Division helps truckers comply with Oregon laws and regulations relating to economic regulation, registration, safety, freight mobility, and truck size and weight. As of the 2021-23 biennium, the division also incorporates rail and transit regulatory and safety oversight functions.

Division enforcement officers and safety specialists check trucks mainly at 83 weigh stations, six ports-of-entry, and at portable scale sites. The division administers an automated preclearance program for within-weight vehicles, and collects and audits tax and registration payments. Safety inspections are also conducted on rails and train cars to reduce the instance of derailments and other costly and potentially dangerous accidents.

Revenue Sources and Relationships

Revenue from weight-mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this Division. About 27% of Highway Fund revenue comes from weight mile taxes, registration and permit fees collected by this division. The CCD also receives Federal Funds supporting truck safety-related efforts.

Budget Environment

Data shows that truck driver actions, rather than truck mechanical defects, cause more than 95% of truck-at-fault crashes in Oregon. The agency continued in 2020 to meet its performance metric of no more than 0.4 commercial motor vehicle crashes per million vehicle miles traveled. Likewise, the number of derailments caused by human error, track or equipment issues is well below the target of 25 annually (standing at 19 in 2019). However, incidents at railroad crossings were more than twice the agency target in 2019 (21 incidents, compared to target of 10). Aging infrastructure and systems continue to be a major driver of costs, but ODOT seeks to counteract some of the expenses by pursuing federal grants for allowable safety and infrastructure initiatives, and examining business processes to maximize collection of revenue that is due.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $85.7 million total funds is $8.7 million, or 11%, more than the 2019-21 legislatively approved budget level. The increase mostly reflects the incorporation of commercial rail compliance activities due to agency reorganization.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a 3% increase from the legislatively adopted budget. The change is the result of previously negotiated statewide employee compensation adjustments.

Policy, Data and Analysis Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	186,284,590	194,455,898	198,436,288	200,510,131
Federal Funds	201,769	201,769	201,443	205,424
Total Funds	**$186,486,359**	**$194,657,667**	**$198,637,731**	**200,715,555**
Positions	241	232	232	232
FTE	232.27	225.06	225.06	225.06

Program Description

The Policy, Data and Analysis (formerly Transportation Development) Division provides the foundation for decision-making to address transportation needs throughout the state. The division plans and coordinates the future use of transportation resources among state, federal, and local agencies to design and operate an efficient transportation system. The division also conducts research, collects data, and provides planning services to support decision making at the state and local levels. Climate Office responsibilities associated with implementation of legislation and executive orders related to greenhouse gas emission reduction are housed here. The division also helps make grant opportunities available for the building of infrastructure in support of a multimodal transportation system (Connect Oregon) with investments in freight, rail, marine and aviation.

Revenue Sources and Relationships

Planning activities are funded from federal funds (budgeted as Other Funds). For 2021-23, this funding is anticipated to be $67.2 million and requires a state match. Federal Funds budgeted as Federal Funds are from the National Highway Traffic Safety Administration to facilitate reporting and analysis of traffic fatalities. Other Funds revenue from a $15 tax on bicycles in excess of $200 is projected to generate $1.6 million, and a vehicle dealer privilege tax, projected at $34.8 million, is dedicated to multimodal projects under the Multimodal Active Transportation Fund and Connect Oregon program, respectively. A further $63.8 million in Highway Fund revenue also supports the activities of the division.

Budget Environment

ODOT is working to meet federal requirements for expanded data collection and reporting, as well as goals under the federal *Fixing America's Surface Transportation Act*, or FAST Act, in the areas of safety, infrastructure condition, congestion reduction, system reliability, freight movement and economic sustainability. 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 the extend rail siding along the Amtrak Cascade line in Oregon south of the City of Portland rail siding extension ($2.6 million). ODOT anticipates revenue will be sufficient in the fall of 2021 to support a competitive application cycle with about $46 million in available funds for aviation, marine, and rail transportation projects.

The agency's Climate Office is active in informing strategies for investing, building and managing the transportation system, and meeting goals for greenhouse gas reduction. This work consists mostly of advancing strategies, investments, and infrastructure supporting vehicle electrification and transit options at the state and local levels.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $198.6 million is $12.1 million, or 6.5%, more than the 2019-21 legislatively approved budget. The budget increase mostly reflects $4 million in ARPA funds for the Sunrise Gateway Corridor Planning and inflation. The agency also transferred three positions to other divisions in a continuing effort to organize its activities by function, rather than customer group.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget is a $4 million, or 2%, increase from the legislatively adopted budget. The change is the result of previously negotiated statewide employee compensation adjustments.

Public Transportation - Transit

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Lottery Funds	500,000	--	950,000	950,000
Other Funds	246,871,518	258,808,502	258,808,305	259,147,940
Federal Funds	116,447,091	76,886,503	76,886,503	76,886,503
Total Funds	**$363,818,609**	**$335,695,005**	**$336,644,808**	**$336,984,443**
Positions	25	28	28	28
FTE	25.00	27.25	27.25	27.25

Program Description
The Transit Program of the Public Transportation Division supports the state's goals of having an integrated, interconnected transportation system that furthers quality of life and economic vitality by contributing to health and safety and reducing greenhouse gas emissions. The program is responsible for establishing policies and procedures, distributing funds, providing technical assistance and training, convening stakeholders, and contracting for services that fill gaps in the statewide transit network. Safe Routes to Schools, bicycle and pedestrian, special transportation programs for seniors and individuals with disabilities, transportation options education, rail operations and the Oregon Community Paths programs are also administered by employees in this section. These programs are operated with the goal of ensuring transit options are available in both rural and urban areas and between communities, and that they facilitate the independence and participation of Oregon residents.

Revenue Sources and Relationships
Federal funding comes from the Federal Transit Administration (FTA) for transit grants as follows:
- $36.9 million for transit grants to serve seniors and individuals with disabilities
- $36.7 million for general transit grants
- $2.3 million for planning

Other Funds come from FTA grants budgeted as Other Funds and available for transit operations ($6 million), as well as a statewide employee payroll tax of 0.1% implemented through HB 2017 and anticipated to generate $232.2 million in 2021-23. Additional Other Funds resources result from transfers from the ODOT Transportation Operating Fund ($6.6 million), Cigarette Tax ($6.8 million), Oregon ID card revenue ($5.2 million), and interest income. A proportional share of funding equivalent to that which was available for senior and disabled transit options in 2019-21 must be maintained pursuant to SB 1601 (2020). Lottery Funds are associated with veterans' healthcare transportation grants funded with dedicated lottery Veteran Service Fund dollars. Transit program funds are primarily distributed to local service providers in three ways: by formula based on service area population or where payroll tax revenues are generated; by formula based on the number of rides given and miles traveled; and through discretionary grant solicitation by ODOT.

Budget Environment
ODOT was directed by the Legislature in 2020, via SB 1601, to consolidate two state-funded transportation programs, the State Transportation Improvement Fund and the Special Transportation Fund. The consolidation will be complete by July 1, 2023 and notice for applications for funding is expected to be made in February of 2023. Except for impact on traffic resulting from the COVID-19 pandemic in 2020, Oregon's urban traffic congestion continues to be severe in larger metro areas and major corridors. Oregon's land use and

environmental policies challenge the transportation community to provide modern transit alternatives for urban commuters.

Policymakers have been moving toward a more multimodal mindset by emphasizing planning and funding for transportation projects beyond those that primarily benefit passenger cars and truck freight. Increasing transit ridership and use of bike and pedestrian options are important means of achieving greenhouse gas reduction goals and relieving traffic congestion.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $336.6 million is $27 million, or 7.5%, less than the 2019-21 legislatively approved budget and includes 28 positions (27.25 FTE). Of this increase, $13 million represents an increase in special payments to transit providers to increase the frequency, reliability, and reach of services; enhance services for low-income communities and individuals; and augment connections between and within services in both urban and rural areas. Unspent lottery funds totaling $300,000 were carried over from 2019-21 for rural veteran healthcare transportation due to disruptions in service from COVID- 19; an additional $650,000 was approved, attributable to anticipated veteran healthcare transportation needs in the 2021-23 biennium.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget represents a $339,635 total funds increase from the legislatively adopted budget. The change is the result of previously negotiated statewide employee compensation adjustments.

Public Transportation - Rail Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	3,349,960
Other Funds	57,128,675	51,398,601	54,688,441	51,669,675
Federal Funds	17,122,916	17,122,916	17,050,360	17,050,360
Total Funds	**$74,251,591**	**$68,521,517**	**$71,738,801**	**$72,069,995**
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. Rail Operations works with advisory groups, industry, and transportation partners to develop freight and passenger rail plans and manage railroad improvement projects. Oregon-owned trainsets that are part of Oregon's passenger rail program on the Amtrak Cascades service is managed within this program, along with financial information and 155 miles of right of way. ODOT anticipates moving the crossing safety and state safety oversight programs to the Commerce and Compliance Division to better integrate programs by function, rather than customer group.

Revenue Sources and Relationships

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:

- $17.1 million from the Federal Railroad Administration (FRA) and Federal Transit Administration (FTA). This amount 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.
- $11.7 million from the Federal Highway-Railroad Grade Crossing Hazard Elimination Funds. This funding is budgeted as Other Funds and used for crossing safety projects.

State revenues at the current service level include:

- $6.5 million from Custom License Plate Fees, which is used for passenger rail. This revenue partially funds two daily round trips between Eugene and Portland.
- $18.8 million from the Transportation Operating Fund (TOF) Non-Highway Fuels Tax to help fund two round trips between Eugene and Portland.
- $5.8 million from the Rail Gross Revenue Fee, which is 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.
- $1.1 million from the Grade Crossing Protections Account (GCPA), which is generated from driver license and vehicle registration fees. This revenue is used for crossing safety regulation and improvement projects at public railroad crossings.

Budget Environment

Passenger rail in Oregon for decades has suffered from a lack of ridership, due in part to on-time reliability issues for lack of dedicated passenger track. Low ridership and funding constraints have required heavy subsidization of passenger rail from the General Fund in biennia past, as well as from specialty license plates. In the case of the latter, revenue has fallen far short of expectations, requiring subsidy from the Transportation Operating Fund totaling an estimated $4.5 million in each of the 2019-21 and 2021-23 biennia. For the 2019-21 biennium, ODOT began subsidizing this service from the Transportation Operating Fund in lieu of General Fund, at a cost of $96 per passenger, totaling an estimated $10 million. This estimate is assumed to grow to $14 million in 2021-23 and $19 million in subsequent biennia. On May 24, 2021, Oregon returned to full service (two roundtrips between Eugene and Portland). As of July 2021, ridership in Oregon was almost at pre-pandemic levels.

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 2021-23 legislatively adopted budget for the Rail Division is $71.7 million, which is a $2.5 million, or 3.4%, decrease from the 2019-21 legislatively approved budget, which is primarily due to services and supplies savings in the program. Other Funds expenditure limitation of $3.3 million was included from American Rescue Plan Act funds that will be transferred from the Department of Administrative Services to ODOT, for rehabilitation of the Lake County Railroad.

Legislatively Approved Budget Update

During the 2022 regular legislative session, the Legislature eliminated Other Funds expenditure limitation for the Lake County Railroad and appropriated an equivalent amount of General Fund for the project. The legislatively approved budget is a $331,194 total funds increase from the legislatively adopted budget, due to previously negotiated statewide employee compensation adjustments.

Transportation Safety Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	19,350,411	17,949,645	17,949,124	18,077,445
Federal Funds	20,328,758	21,270,051	21,269,856	21,376,383
Total Funds	**$39,679,169**	**$39,219,696**	**$39,218,980**	**$39,453,828**
Positions	27	27	27	27
FTE	27.00	27.00	27.00	27.00

Program Description
The Transportation Safety Division, which has now been incorporated into the DMV as the Transportation Safety Office, advocates for 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 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. A five-member, Governor-appointed committee advises the Oregon Transportation Commission and ODOT on these matters.

Revenue Sources and Relationships
The division is supported by Other Funds and Federal Funds. Other Funds resources are derived through fees charged by DMV for student driver training and motorcycle training. The division receives a transfer from the Delivery and Operations Division to provide match for federal grant funds and administrative funding. Transfers from the Highway Fund support regional safety staff. Funding is also provided from the Transportation Operating Fund for K-12 highway safety programs. Federal Funds come through grants from the Federal Highway Administration and the National highway Traffic Safety Administration.

Budget Environment
After decades of steady decline, fatalities on Oregon roads began to increase in 2014. Traffic fatality rates reached a 10-year high in 2020, at 1.51 per 100 million vehicle miles traveled, which translates to 487 fatalities. The number of serious injuries in 2019 (the latest year for which data has been certified) is 1,904. The major causes are speed, lane departures, and driver impairment. ODOT seeks to mitigate incidences of serious injury and fatality through a combination of education, partnerships with state and local law enforcement, and infrastructure improvements, such as median cable barriers, rumble strips, and pedestrian crossings.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $39.2 million total funds represents a current service level budget for the division.

Legislatively Approved Budget Update
The legislatively approved budget is a $234,848 total funds increase from the legislatively adopted budget, which is due to previously negotiated employee compensation adjustments.

Support Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	267,300,260	183,184,450	176,529,829	180,598,782
Federal Funds	300,367	--	--	--
Total Funds	**$267,600,627**	**$183,184,450**	**$176,529,829**	**$180,598,782**
Positions	523	366	366	366
FTE	519.82	362.96	362.96	362.96

Program Description
Support Services provides administrative functions supporting each agency program. The following are the services provided:

- Human Resources (51.46 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 (19.00 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 (221.00 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.
- Business Services and Performance Services (13.00 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) - represents the central procurement authority for ODOT and manages all procurement and contracting matters for ODOT and the Department of Aviation. Additionally, the 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

Support Services is funded 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 a central assessment model, which prorates each division's share of Headquarters operating costs.

Budget Environment

Workload in Support 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 2021-23 legislatively adopted budget of $176.5 million is $91 million less than the 2019-21 legislatively approved budget. The decrease reflects the transfer of 163 positions related to Headquarters and financial services into separate organizational and budgetary units, and also the consolidation of statewide Microsoft 365 licensing and adjustments to state government service charges.

Legislatively Approved Budget Update

The legislatively approved budget is a $4.1 million Other Funds increase from the 2021-23 legislatively adopted budget due to previously negotiated statewide employee compensation adjustments.

ODOT Headquarters

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	61,914,340	61,905,322	62,428,235
Total Funds	**--**	**$61,914,340**	**$61,905,322**	**$62,428,235**
Positions		88	88	88
FTE		87.50	87.50	87.50

Program Description

The ODOT Headquarters (HQ) consists of offices and functions that require direct involvement from the Director's Office. HQ provides centralized policy direction, communications, messaging, strategy, and support for agency division managers. Core functions include the Director's Office; Government Relations; Communications; Office of Organizational Excellence; Audit Services; Office of Social Equity; and Office of Innovative Funding.

Revenue Sources and Relationships
HQ is funded through a central assessment model, which prorates each division's share of Headquarters operating costs.

Budget Environment
HQ functions were previously part of the Support Services limitation but have been separated in the budget in recognition of their separate nature.

Legislatively Adopted Budget
The 2021-23 biennium is the first biennium in which Headquarters is organized as a stand-alone entity for purposes of budgeting. The Legislatively Adopted Budget is $61.9 million Other Funds and 88 positions (87.50 FTE).

Legislatively Approved Budget Update
Previously negotiated statewide employee compensation adjustments resulted in a $522,913 increase in Other Funds expenditure limitation, compared to the 2021-23 legislatively adopted budget.

Finance and Budget

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	52,429,763	50,669,657	51,201,313
Federal Funds	--	317,204	317,204	317,204
Total Funds	**--**	**$52,746,967**	**$50,986,861**	**51,518,517**
Positions	--	80	80	80
FTE	--	80.00	80.00	80.00

Program Description
Finance and Budget consists of 80 positions that provide budgeting (6.00 FTE), Financial Services, including collections, accounts payable, fuel tax management, and accounting (69.00 FTE), and economic and financial modeling and analysis (5.00 FTE).

Revenue Sources and Relationships
Fuels tax-related work is funded from gross Motor Fuels taxes. The remaining support for the division comes from a central assessment model, which prorates each division's share of Finance and Budget operating costs.

Budget Environment
These functions were separated from the Support Services unit as part of reorganization efforts by the agency when ODOT brought the agency's various financial and revenue functions together as a single division to better manage the agency's budget and fiscal health.

Legislatively Adopted Budget
The 2021-23 biennium is the first biennium in which the Finance and Budget Division is organized as a stand-alone entity for purposes of budgeting. The Legislatively Adopted Budget totals $51 million Other Funds and 80 positions (80.00 FTE).

Legislatively Approved Budget Update
The legislatively approved budget represents a $531,656 Other Funds increase from the 2021-23 legislatively adopted budget due to previously negotiated statewide employee compensation adjustments.

Non-limited Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	18,000,000	18,000,000	18,000,000	18,000,000
Total Funds	**$18,000,000**	**$18,000,000**	**$18,000,000**	**$18,000,000**

Program Description

Non-limited 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 non-limited because the level of activity is generally unpredictable. The Oregon Transportation Infrastructure Bank (OTIB) is ODOT's only authorized use of the non-limited fund type, and was established in 1997 as a revolving loan program. OTIB makes loans to local governments, transit providers, and other eligible borrowers. As loans are repaid, principal and interest are returned to OTIB and are available for new loans.

Revenue Sources and Relationships

The program was initially capitalized with a combination of federal and state funds and interest earnings. OTIB now operates with dedicated State Highway Funds and loan repayments.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is $18 million to reflect anticipated loan disbursements for the biennium.

Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	25,176,339	18,371,940	18,371,393	18,371,213
Lottery Funds	114,671,361	126,019,800	121,944,228	121,144,419
Other Funds	385,369,037	400,357,130	400,357,680	401,157,671
Other Funds (NL)	1,364,379,549	--	--	--
Federal Funds (NL)	21,243,619	--	20,679,380	20,679,380
Total Funds	**$1,910,839,905**	**$544,748,870**	**$561,352,681**	**$561,352,683**

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.

Debt service in this program repays highway construction bonds issued under the Oregon Transportation Investment Act, Jobs and Transportation Act, and Keep Oregon Moving (HB 2017) programs. It also covers 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, Salem-Keizer Transit Center, Juntura Road project in Harney County, Portland SW Capitol Highway project, the Lane Transit District project, a pedestrian bridge in the City of Sherwood, dedicated projects for Connect Oregon per HB 2017, and Connect Oregon phases I – VI. Debt service is paid from State Highway and Lottery Funds and is partially subsidized by federal funding. General Fund debt service for 2021-23 pays for Highway Safety Improvement projects (22%) and debt for the State Radio Project (78%).

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 2021-23 biennium, the Department expects to receive $20.6 million which will be used to offset debt service payments.

Legislatively Adopted Budget
At $561.4 million total funds, the 2021-23 legislatively adopted budget is $1.3 billion, or 70%, less than the 2019-21 legislatively approved budget. The large reduction is due to several refunding events in the 2019-21 biennium.

Legislatively Approved Budget Update
Changes in legislatively approved amounts for debt service due to updated projections resulted in a nominal increase of $2 total funds compared to the 2021-23 legislatively adopted budget.

Capital Improvements

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	17,353,672	18,099,880	18,099,880	18,099,880
Total Funds	**$17,353,672**	**$18,099,880**	**$18,099,880**	**$18,099,880**

Program Description
The Capital Improvements program provides for new construction, remodeling or improvements totaling less than $1 million per project, 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 to maximize their value to the agency.

Revenue Sources and Relationships
Capital improvements are funded primarily through transfer of State Highway Funds.

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, facilities need to be improved or remodeled.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $18.1 million reflects the current service level for maintenance and improvement of ODOT's facilities.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	13,883,267	--	32,000,000	32,000,000
Total Funds	**$13,883,267**	**--**	**$32,000,000**	**$32,000,000**

Program Description

Capital Construction projects provide for new construction, remodeling, or improvements to facilities leased or owned by ODOT with costs totaling over $1 million.

Revenue Sources and Relationships

Capital activities are funded primarily through transfer of State Highway Funds, although federal grants, bond proceeds, or other resources are occasionally made available.

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 2021-23 legislatively adopted budget of $32 million Other Funds for Capital Construction provides funds for consolidating maintenance stations on the south coast ($12 million), construction of a new Meacham maintenance station ($16.2 million), and upgrades to heating, ventilation, and cooling systems and other energy efficiency improvements in ODOT-owned buildings ($3.8 million).

ADMINISTRATION

PROGRAM AREA

DEPARTMENT OF ADMINISTRATIVE SERVICES

Analyst: To

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	228,841,846	13,993,924	90,170,999	670,472,681
Lottery Funds	22,324,979	33,354,570	27,226,508	26,803,355
Other Funds	1,285,169,846	1,030,449,976	1,440,489,283	1,516,696,835
Other Funds (NL)	179,868,016	138,691,080	138,691,080	138,691,080
Federal Funds	1,375,851,898	--	2,628,799,487	3,201,250,375
Total Funds	**$3,092,056,585**	**$1,216,489,550**	**$4,325,377,357**	**$5,553,914,326**
Positions	928	892	971	996
FTE	910.27	891.50	966.72	982.26

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; maintains facilities and the state data center; and provides printing, information technology, 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 the revenue DAS receives through assessments and charges originates as General Fund or Lottery Funds in the sending agencies.

Historically, DAS has not expended federal funds directly and only relied on federal funds paid through assessments and charges by agencies. However, this changed beginning in the 2019-21 biennium due to the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan Act (ARPA) designed to support states' responses to the public health crisis. A decision was made early in the public health emergency to have all federal funds for general state support from the two federal spending bills flow through the Department. DAS expend these monies as Federal Funds, which required expenditure limitation adjustments. If a different state agency was responsible for carrying out activities supported by these funds, then that agency received Other Funds expenditure limitation, with DAS accounting for the pass-through using its federal funds expenditure limitation.

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.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for DAS totals $4.325 billion, which is $1.23 billion, or 40%, higher than the 2019-21 legislatively approved budget. The budget supports 971 positions (966.72 FTE).

Legislatively Approved Budget Update
Based on changes approved during the second 2021 special session and 2022 regular session, the 2021-23 legislatively approved budget for DAS is $1.23 billion, or 28.4%, higher than the 2021-23 legislatively adopted budget.

Chief Operating Office

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	3,106,551	3,236,971	10,031,915	10,639,266
Other Funds	26,067,175	27,359,957	30,125,423	30,732,151
Total Funds	**$29,173,726**	**$30,596,928**	**$40,157,338**	**$41,371,417**
Positions	62	63	70	70
FTE	60.78	63.00	69.63	69.63

Program Description
The DAS Director is responsible for managing and coordinating the policies, programs, and services of the divisions within the Department. The 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 – Produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast, and 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 – Maintains the DAS technology environment through Application Service Delivery and the Technology Support Center.

Revenue Sources and Relationships
HB 2600 (2017) moved General Fund pass-through funding for the Court Appointed Special Advocates (CASA) program from the Housing and Community Services Department to DAS. The CASA program also receives federal funds from the Department of Human Services that are pass-through to CASA organizations by DAS as Other Funds. General Fund support directly pays for the cost of producing prison population forecasts. The Department of Transportation pays for the cost of the Highway Cost Allocation Study conducted by OEA. Most COO functions are otherwise funded through an assessment on state agencies. DAS Information Technology receives funding from DAS Divisions through internal overhead charges and from client agencies that pay DAS for desktop computing support.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for the Chief Operating Office is $10,983,612, or 38% higher, than the 2019-21 legislatively approved budget. The budget carries forward reductions from the August 2020 special

session resulting in a decrease of $457,531 Other Funds and the elimination of two vacant positions. The budget also includes the following increases:

- $3,765,271 General Fund and six positions (6.00 FTE) for a study to determine if inequities exist in public procurement and contracting that adversely affect businesses owned by minority, women, and/or service-disabled veterans by looking at state contract data.
- $2,779,673 General Fund to supplement the funding for the CASA Volunteer Program plus an additional $250,000 General Fund for contracting with a nongovernmental statewide coordinating entity to oversee the program and its services.
- $3,286,307 Other Funds to correct budget discrepancies for ongoing software licensing costs, computer lifecycle replacement, and services and support, which has not been included in the program budget in the past. The increase includes two permanent full-time positions (2.00 FTE) to address workload needs.
- $988,302 Other Funds, two permanent positions (2.00 FTE), and two limited duration positions (2.00 FTE), for implementing an enterprise software as a service Public Records Request Management System. This project is anticipated to take three years to complete and will require an additional investment in the future for software licensing and support staff.
- $984,778 Other Funds to continue a permanent full-time Information System Specialist 8 position (1.00 FTE) added during the 2020 second special session. Expenditure limitation was also added to complete the Application Integration Platform project approved in 2019-21. The project timeline has been extended into the 2021-23 biennium due to the public health emergency.
- $687,540 Other Funds and two permanent full-time positions (1.63 FTE) to develop remediation plans needed to resolve information technology risks, as well as tracking and reporting progress. The increase also includes $250,000 to procure Secure Desktop professional services.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Chief Operating Office consists of $10,639,266 General Fund and $30,732,151 Other Funds. The total funds budget represents a $1,214,079, or 3%, increase from the legislatively adopted budget. Over half the increase is due to previously approved statewide employee compensation plan changes. The budget also includes a one-time General Fund appropriation of $500,000 to contract with a third-party organization to assess gender-responsive practices at the Coffee Creek Correctional Facility. The purpose of the assessment is to establish a baseline for a strategic planning process, policy recommendations, and improved protection of individuals serving sentences of incarceration at Coffee Creek Correctional Facility.

Chief Financial Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	15,552,216	$16,483,228	16,618,906	17,111,178
Federal Funds	--	--	1,843,164	1,949,061
Total Funds	**$15,552,216**	**$16,483,228**	**$18,462,070**	**$19,060,239**
Positions	44	44	49	49
FTE	44.00	44.00	49.00	49.00

Program Description

The Chief Financial Office (CFO) establishes and enforces statewide budget policies 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 recommendation through the legislative process. CFO helps with coordinating 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 and supporting accuracy and accountability in state 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 2021-23 legislatively adopted budget for the Chief Financial Office is $2,909,854, or 18.7%, higher than the 2019-21 legislatively approved budget. This increase is driven largely by the addition of $1,843,164 Federal Funds for an America Rescue Plan Act (ARPA) team, including five limited duration positions (5.00 FTE) to track ARPA expenditures and comply with federal reporting and audit requirements. Team members will also provide guidance on eligible uses of these relief funds and coordinate ARPA spending with state agencies. All ARPA funds must be obligated by the end of 2024. A reduction from the August 2020 special session was also carried forward resulting in the elimination of one vacant Office Specialist 2 position (1.00 FTE), the budgetary impact of which was partially offset by the transfer in of one application development position (1.00 FTE) from DAS IT.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the Chief Financial Office consists of $17,111,178 General Fund and $1,949,061 Other Funds. The total funds budget is $598,169, or 3.2%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Chief Human Resource Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	31,418,299	29,540,834	33,876,105	36,405,420
Total Funds	**$31,418,299**	**$29,540,834**	**$33,876,105**	**$36,405,420**
Positions	76	66	82	84
FTE	72.07	66.00	78.59	79.75

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 on equal employment opportunity and a merit-based compensation system. CHRO also provides executive recruitment services to state agencies and is responsible for implementing pay equity statutory requirements passed in 2017.

Revenue Sources and Relationships
CHRO's is primarily supported with assessments paid by state agencies. Legislative and Judicial Branch agencies and the Lottery Commission pay an assessment to use the Workday and other centralized employee databases.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for the Chief Human Resource Office totals $33,876,105 Other Funds and is $2,457,806, or 7.8%, higher than 2019-21 legislatively approved budget level. Increases to the CHRO budget include:

- $1,790,319 to establish an Office of Cultural Change with four permanent full-time positions (4.00 FTE) and diversity, equity and inclusion training across the executive branch.
- $1,332,774 and three full-time positions (3.00 FTE) to ensure agencies are in compliance with statewide human resources rules in line with recent Secretary of State audit findings, analyze executive branch pay, and support software costs for enterprise tracking of employment investigations as identified in the Secretary of State audit.
- $676,243 for three permanent full-time positions (3.00 FTE) in the Culture Change Office to support racial equity recruitment strategies and employee retention goals.

- $189,617 to continue four limited duration positions (0.59 FTE) into the first months of the biennium to complete work on the Learning Management Software Replacement Project. The project timeline has been extended into the 2021-23 biennium.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Chief Human Resource Office is $36,405,420 Other Funds, which represents a $2,529,315, or 7.5%, increase from the legislatively adopted budget. The increase consists of the following:

- $859,460 Other Funds for previously approved employee compensation plan adjustments.
- $1,669,855 Other Funds and two permanent full-time positions (1.16 FTE) to support the newly independent Oregon Department of Emergency Management and address increased statewide training costs.

Enterprise Information Services (EIS)

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,400,000	--	--	3,345,000
Other Funds	$84,327,297	$80,109,130	$121,739,271	$123,715,928
Total Funds	**$85,727,297**	**$80,109,130**	**$121,739,271**	**$127,060,928**
Positions	118	119	140	141
FTE	115.18	119.00	140.00	140.50

Program Description

Enterprise Information Services (EIS) 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 agency IT projects. With the passage of SB 90 (2017), IT security was added as an EIS direct support function.

EIS is comprised of several programs. The Enterprise Security Office 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 SCIO and IT-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 coordination for state and local government to support enterprise-wide planning.

Revenue Sources and Relationships

Enterprise Information Services is funded primarily through assessment of state agencies based on the number of full-time equivalent positions. The 2017-19 legislatively adopted budget included a small amount of General Fund to hire a Chief Data Officer to maintain a central web portal for data publication. For 2019-21, the costs of the new program were included in the EIS assessment rather than supported by General Fund. Similarly, $1.4 million General Fund was approved by the Emergency Board in October 2020 to procure a Statewide Emergency Alert System. The General Fund was replaced with Other Funds from assessments in the 2021-23 budget as detailed below.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for EIS is $47 million, or 59%, higher than the 2019-21 legislatively approved budget. Of this increase, $36 million represents the consolidation of Microsoft 365 within EIS at the E5 level of service. These costs were built into the State Government Service Charge for every agency as a cost increase. The budgets for all participating agencies included a corresponding reduction to the agency base budget in an amount equivalent to what the agencies should have been paying in the 2019-21 biennium for Microsoft 365 at the E3 level of service. The $36 million pays for licensing costs, which are based on a four-year contract.

Additional changes in 2021-23 include the following Other Funds adjustments:
- $7,197,308 in reductions from the August 2020 special session were carried forward into 2021-23. These reductions included reducing services and supplies accounts; canceling the planned remodel of the program's Department of Revenue building space; applying telecom credits; and canceling planned Cyber Information Security purchases because applications are being replaced with other enterprise-level solutions.
- $2,674,964 million and two positions (2.00 FTE) added for continuation of the Statewide Emergency Alert System approved by the Emergency Board in October 2020.
- $5,173,877 added to address gaps in the management of data sharing and open data publication within the Data Governance and Transparency Division and provide resources for the successful implementation of both an Open Data Initiative and a Geospatial Data Sharing Hub. This budget adjustment included six permanent full-time positions (6.00 FTE).
- $4,122,917 added to establish twelve permanent full-time positions (12.00 FTE) to be deployed to large agencies to assist with Cyber Security Risk mitigation. This funding also included expenditure limitation for the purchase of hardware, software, and professional services to enable new capabilities to detect, prevent, manage security risk, replace aging equipment and automate firewall provisioning

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for EIS consists of $3,345,000 General Fund and $123,715,928 Other Funds. The total funds budget is $5,321,657, or 4.4%, more than the 2021-23 legislatively adopted budget. The increase reflects the following:
- $3,345,000 in one-time General Fund for maintenance and operations of the Enterprise Microsoft 365 system.
- $1,846,720 Other Funds for previously approved statewide employee compensation plan adjustments.
- $129,937 Other Funds and one permanent full-time Operations and Policy Analyst 4 position (0.50 FTE) for EIS's role in implementing HB 4077 (2022) related to the development of an environmental justice mapping tool.

EIS - Data Center Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	134,640,376	154,543,532	168,054,267	169,720,654
Total Funds	**$134,640,376**	**$154,543,532**	**$168,054,267**	**$169,720,654**
Positions	153	148	153	153
FTE	152.76	148.00	153.00	153.00

Program Description

Data Center Services (DCS) is overseen by Enterprise Information Services and the State CIO. DCS provides centralized computing and application services by leveraging new and existing IT assets to support numerous business operations across government. Data Center Services is organized into six service delivery sections:
- Administration/Plans and Controls – Provides administrative support for the division, including budgeting, strategic planning, 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 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
DCS revenues come from usage fees and charges to state agencies and other customers and some assessments based on factors other than usage. The methodology, allocation, and structure of fees and charges are often fine-tuned to ensure service charges cover the full cost of services being delivered. Many rates depend on usage, and rates are determined by the type of date center service being used. Four major service areas are provided: computing (mainframe, midrange, and distributed systems), network, storage, and voice.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for Data Center Services totals $168.1 million Other Funds, which is $33.4 million, or 25%, higher than the 2019-21 legislatively approved budget. Other Funds expenditure limitation adjustments included:

- An increase of $14,511,000 to continue the State Data Center lifecycle replacement plan, including the replacement of computing, network equipment, and other tools, as well as upgrading operation system licenses.
- Reductions totaling $5,807,703 made during the August 2020 special session and carried forward into 2021-23. These include reductions to professional services, maintenance costs, vendor support services, and other services and supplies, and savings from eliminating legacy email solutions.
- An increase of $5,209,140 and three permanent full-time positions (3.00 FTE) to create a resilient site for Data Center computing, mainframe, storage, and backup.
- An increase of $475,932 and two limited duration positions (2.00 FTE) to continue the expansion of the new Co-location Service at the State Data Center. This service enables existing agency facilities to increase their recovery resiliency and utilize services not currently available in their own data center.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Data Center Services is $169,720,654 Other Funds, which is $1,666,387, or 1%, more than the legislatively adopted budget. The increase is due to previously approved statewide employee compensation plan adjustments.

Enterprise Asset Management

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	4,000,000
Other Funds	103,913,489	100,356,616	107,462,869	112,532,832
Total Funds	**$103,913,489**	**$100,356,616**	**$107,462,869**	**$116,532,832**
Positions	201	199	202	202
FTE	200.50	198.50	201.50	201.50

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 the state. Growth in state agencies and demand for new or improved facilities has a direct impact on EAM activities.

The Statewide Fleet Administration program acquires and maintains vehicles for state agency use. The Surplus Property program provides a central distribution point for agencies' surplus inventory and actively markets the sale of those items to other governments and the public.

Revenue Sources and Relationships

Enterprise Asset Management is funded from several sources, but its two major sources are uniform rent assessed on all tenant agenciesFree 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.

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 costs. 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 property acquired.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Enterprise Asset Management totals $107,462,869 Other Funds, which is $3,549,380, or 3.4%, higher than 2019-21 legislatively approved budget level. Changes to the budget include:

- A $3,568,190 decrease from reductions continued from the August 2020 special session. These include eliminating a Procurement and Contract Assistant position (1.00 FTE), reducing services and supplies in the Fleet program by delaying fuel system upgrades, reducing parking contract services, and making services and supplies reductions associated with data processing and fuel savings.
- An increase of $5,000,000 for contract services and tenant improvements in the Rent program. Facility maintenance costs, along with contract services and the cost tenant improvements have increased significantly since the last time expenditure limitation was adjusted.
- An increase of $2,100,000 to replace aged vehicles in the DAS Fleet with high efficiency, low carbon impact vehicles. In addition, due to supply chain disruptions, previous vehicle orders were in jeopardy of being delivered by the end of the 2019-21 biennium even though the vehicles were ordered in January and February of 2021. To address this, DAS Fleet carried over $1,095,995 Other Funds expenditure limitation on a one-time basis to pay for these vehicles if they were delivered past the end of the biennium in which they were ordered.
- An increase of $404,854 and two permanent full-time positions (2.00 FTE) to enable the Rent program to complete and coordinate building condition and repair reporting and oversee construction work quality.
- An increase of $312,097 from the establishment of two permanent full-time positions (2.00 FTE), which include an Auto Tech 2 and an Administrative Specialist, to meet workload needs. These positions had existed in the 2019-21 budget as limited duration.
- A $263,618 increase to make permanent an existing limited duration Operations and Policy Analyst 4 position (1.00 FTE) managing private facilities leases and those for state buildings. The position will also work on changes in leasing needs based on changing workplace models.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Enterprise Asset Management consists of $4,000,000 General Fund and $112,532,832 Other Funds. The total funds budget is $9,069,963, or 8.4%, more than the 2021-23 legislatively adopted budget. The increase includes the following:

- $1,474,963 Other Funds for previously approved statewide employee compensation plan adjustments.
- A one-time $4,000,000 General Fund appropriation and an increase of $3,400,000 Other Funds expenditure limitation to purchase and operate additional fleet vehicles to accommodate requests from agencies related to staffing increases for the 2021-23 biennium.

- $195,000 Other Funds for cost of bond issuance associated with approval of an additional Article XI-Q bonds authorized in SB 5701 (2022) to address the increasing costs of the North Valley Complex (also known as the Wilsonville building).

Enterprise Goods and Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	115,590,709	114,322,284	125,598,732	130,079,927
Other Funds (NL)	116,321,671	113,974,573	113,974,573	113,974,573
Total Funds	**$231,912,380**	**$228,296,857**	**$239,573,305**	**$244,054,500**
Positions	263	242	265	276
FTE	253.98	242.00	265.00	272.79

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, commonly referred to as the Risk Fund, to maintain adequate balances for known and projected losses and to purchase excess coverage for the state's liability needs. 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 Risk Fund. State agencies pay into the Risk 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 total 2021-23 legislatively adopted budget for Enterprise Goods and Services, for both Other Funds and Other Funds Nonlimited, is $7.6 million, or 3.3%, higher than the 2019-21 legislatively approved budget. Other Funds Nonlimited decreased by $2.3 million due to forecasted changes in payments from the state's Self-Insurance Fund for claims paid by Risk Management. Payments from the Risk Fund are not limited by the Legislature. Notably, during the 2021 session the Legislature reversed a statutory transfer of $10 million from the Risk Fund to the General Fund due to concerns over the funding levels of the Risk Fund. The funded status of the Risk Fund is likely to be an ongoing issue.

Other Funds limited expenditures increased by just over $10 million, which represents an 8.7% increase over the 2019-21 legislatively approved budget. Other Fund limited expenditure changes include:

- Added $17,375,145 and 25 limited duration positions (25.00 FTE) to support the testing, training, and implementation activities of the project to replace the Oregon State Payroll System and the current ePayroll (time and attendance) system used by state agencies and employees.
- A revenue only package reflects increasing DAS Risk Charges by $15 million to increase the funded status of the Insurance Fund. Numerous factors are increasing risk related costs, including the COVID-19 public health emergency.
- $1,295,855 and two limited duration positions (2.00 FTE), an Operations and Policy Analyst 4 and an OPA2 for the OregonBuys Enterprise Project to continue into the next biennium. The project timeline is 24 months longer than anticipated during the initial budget request made in 2019. Funding for this work will also need to be continued into 2023-25 based on project timelines and deliverables.
- Continuation of reductions made during the August 2020 special session resulting in a decrease of $5,618,157. The reductions include elimination of seven vacant positions (7.00 FTE), savings from unused services and supplies, reduced postage at Publishing and Distribution Services, and reduced Attorney General spending in DAS Risk Management based on historical usage. Partially offsetting these reductions is the transfer of two application developer positions (2.00 FTE) from DAS IT to EGS.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Enterprise Goods and Services is an increase of $4,481,195 limited Other Funds (or 1.9%) and 11 positions (7.79 FTE) over the 2021-23 legislatively adopted budget. The increase includes:

- $2,353,962 for previously approved statewide employee compensation plan adjustments.
- $210,724 and one limited duration Project Director (PEM F) position (0.75 FTE) for Phase 2 of the DAS e-procurement modernization project.
- $421,114 and one PEM H position (0.88 FTE) to restore an administrator position to lead the Enterprise Goods and Services Division.
- $150,579 and one limited duration Procurement and Contract Specialist 3 position (0.58 FTE) to provide procurement services for newly independent state agencies (Emergency Management and State Fire Marshal).
- $1,344,816 Other Funds, two limited duration payroll positions (1.00 FTE), and six permanent positions (4.58 FTE) to manage work related to payroll for out of state workers, including registering and filing payroll tax exemptions with each state; and for Risk Management to identify and address out-of-state exposures, including managing statewide policies, developing multi-state OSHA compliance, reviewing and updating insurance policies, and managing out-of-state workers compensation claims.

Business Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	15,439,499	19,993,009	17,976,283	18,067,618
Total Funds	**$15,439,499**	**$19,993,009**	**$17,976,283**	**$18,067,618**
Positions	11	11	10	10
FTE	11.00	11.00	10.00	10.00

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 2021-23 legislatively adopted budget for Business Services is $2.5 million, or 16.4% higher, than the 2019-21 legislatively approved budget 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. Also included is a reduction of $462,378 Other Funds from the continuation of reductions approved during the August 2020 special session, which results in the elimination of one Fiscal Analyst 2 position (1.00 FTE) position and elimination of funding for planned tenant improvements to the DAS Executive Building.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Business Services is $91,335 Other Funds, or 0.5%, more than the 2021-23 legislatively adopted budget. The increase is due to employee compensation plan adjustments that were included in HB 5202 (2022), the omnibus budget bill for the 2022 session.

Capital Improvements

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	4,570,497	4,767,028	5,017,028	5,017,028
Total Funds	**$4,570,497**	**$4,767,028**	**$5,017,028**	**$5,017,028**

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 from 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 2021-23 legislatively adopted budget is higher than the 2019-21 legislatively approved budget by almost 10% due to increased funding to replace lighting, support electrical infrastructure for energy efficiency, replace and upgrade elevator controls, and maintain heating, ventilation, and air conditioning (HVAC) equipment. The budget should provide sufficient resources to maintain DAS owned buildings and facilities, including projects deferred in prior budget periods.

Legislatively Approved Budget Update
No changes were made to the Capital Improvements program during the 2021 special sessions or the 2022 regular session.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	77,049,925	--	142,750,000	169,750,000
Total Funds	**$77,049,925**	**--**	**$142,750,000**	**$169,750,000**

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 period, 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 2021-23 legislatively adopted budget for Capital Construction funds several deferred maintenance projects paid from the agency's Capital Projects Fund (no debt financing required) and three that are debt financed. The approved Capital Construction projects include:

- $60,000,000 Other Funds, financed with Article XI-Q bonds, to renovate the North Valley Complex in Wilsonville and make tenant improvements and related site improvements to prepare the building for use by multiple agencies. The project will include seismic reinforcement and laboratory space large enough to consolidate multiple agencies' laboratory operations. The facility in Wilsonville, which includes warehouse, lab, and office space, as well as high-bay doors, was purchased in fall 2019 using $24,000,000 Other Funds financed with Article XI-Q bond. It has been used as the statewide central distribution site for personal protective equipment purchased or received by the state during the COVID-19 public health emergency.
- $45,000,000 Other Funds, financed with Article XI-Q Bonds, to renovate the Executive Building, including seismic updates and upgrades of the exterior envelope and the building systems including electrical, mechanical, plumbing, and fire sprinkler systems.
- $15,500,000 Other Funds for various capital and tenant improvements in multiple DAS-owned buildings paid from the Capital Projects Fund. These improvements include: (1) roof replacements for the Commerce Building, Salem Motor Pool, and the Agricultural Building; (2) replacement of lighting packages and supporting electrical infrastructure for energy efficiency in multiple buildings; (3) replacement and upgrade of elevator controls in various facilities; and (4) upgrades to HVAC systems in multiple buildings.
- $10,000,000 Other Funds to design and construct lactation rooms, wellness rooms, and gender-neutral bathrooms in multiple DAS-owned buildings. The cost of these projects will be paid from the Capital Projects Fund.
- $4,000,000 Other Funds, financed with Article XI-Q bonds, to pave the existing gravel Yellow Parking Lot in the Capitol Mall area and make necessary site improvements related to storm water, landscaping and other site improvements. The project also includes a public electric vehicle charging component.
- $2,750,000 Other Funds from the Capital Projects Fund to make structural and seismic safety repairs and storm water handling system repairs to the Capitol Mall parking structure as well as irrigation system repairs in the Capitol Park above the parking structure.
- 2,000,000 Other Funds to design innovative solutions to implement during capital construction projects such as heat recovery, lighting and building controls, insulation, or daylighting technologies and evaluate the return on investment for traditional solutions versus high efficiency modern technologies. Uniform rent revenues will be used to fund these projects.
- $2,000,000 Other Funds from the Capital Projects Fund to install electric vehicle charging stations and perform surface replacement and upgrades in multiple state-owned parking lots.
- $1,500,000 Other Funds for parking lot and street improvement projects at the Dome Building and Yaquina Hall. Project costs will be paid from the Capital Projects Fund.

Legislatively Approved Budget Update

The 2021-23 legislatively approved Capital Construction budget is $27 million, or 18.9%, more than the 2021-23 legislatively adopted budget. The increase reflects the following adjustments approved in SB 5702 (2022):

- $17,000,000 Other Funds (Article XI-Q Bonds and Capital Project Fund) for the Wilsonville North Valley Complex project established in the 2021 legislative session to make facility renovations, tenant improvements, and related site improvements to ready the building for use by multiple agencies. The increase brings total Other Funds construction expenditure limitation approved for the project to $77 million.
- $10,000,000 Other Funds for state facilities security and capital improvements.

DAS Debt Service

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	18,220,822	21,579,010	26,768,122	26,840,992
Total Funds	**$18,220,822**	**$21,579,010**	**$26,768,122**	**$26,840,992**

Program Description

This program unit includes only debt service payments for debt instruments sold to pay for construction and improvements to state buildings owned by DAS. Article XI-Q bonds are the primary debt instruments used by the state. 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 on state-owned facilities. Because XI-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 2021-23 legislatively adopted budget supports payments on previously approved debt. In addition, $7.9 million Other Funds expenditure limitation was added for bond issuance and debt payments, including $5.9 million to pay early issuance debt service payments on the $60 million of Article XI-Q bonds that will be sold early in the biennium to support infrastructure upgrades and tenant improvements at the North Valley Complex, which was previously referred to as the Wilsonville Building.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for Debt Services is $72,870 (or 0.3%) more than the 2021-23 legislatively adopted budget. This change reflects an increase in Other Funds expenditure limitation to use an available fund balance for debt service payments.

Mass Transit Distributions

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	24,716,507	24,716,507	24,716,507	24,716,507
Total Funds	**$24,716,507**	**$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
The revenue available for Mass Transit Distributions come from state agency payments for mass transit taxes, which are collected by the state on behalf of certain transit districts.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget supports anticipated mass transit assessment collections and distributions based on budgeted employment numbers.

Legislatively Approved Budget Update
No changes were made to the adopted mass transit budget during the 2021 special sessions or the 2022 regular session.

Bonds

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	424,666,321	461,395,348	461,395,348	461,395,348
Other Funds (NL)	38,829,838	--	--	--
Total Funds	**$463,496,159**	**$461,395,348**	**$461,395,348**	**$461,395,348**

Program Description
This budget structure includes expenditures for debt service and debt management costs on Pension Obligation Bonds. These pension obligation bonds are scheduled to be fully repaid on June 1, 2027.

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 time as the bonds are repaid under the assumption that state revenues would increase over time as well.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget is set at a level to cover debt service payments and treasury fees based on existing repayment schedules and budget projections.

Legislatively Approved Budget Update
No changes were made to the budget during the 2021 special sessions or 2022 regular session.

Special Governmental Payments

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	224,335,295	10,756,953	80,139,084	652,488,415
Lottery Funds	22,324,979	33,354,570	27,226,508	26,803,355
Other Funds	79,841,235	--	183,106,929	215,327,759
Total Funds	**$326,501,509**	**$44,111,523**	**$290,472,521**	**$894,619,529**

Program Description
Special Governmental Payments is a budget structure for payments typically made for one-time special projects or legislative priorities.

Revenue Sources and Relationships

Revenues in this program unit come from a variety of sources and are usually specifically identified in the agency's budget bill or other legislation. Other Funds are used for the expenditure of bond proceeds and Lottery Funds support debt service on Lottery Bonds issued for various non-state agency special projects. While the project funding for these bonds is one-time, the debt service payments remain until the debt is fully repaid. General Fund appropriations are for one-time grants for special projects.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Special Governmental Payments adds one-time Other Funds expenditure limitation of $6,394,311 for previously approved grants funded through the issuance of Lottery Bonds that are not expected to be fully disbursed by the end of the 2019-21 biennium. A one-time $1.5 million General Fund increase to the on-going operating subsidy for the Oregon Historical Society was also approved.

A total of $68,482,439 General Fund was also approved for the following projects:

- $2,500,000 to Fair Housing Council of Oregon for a collaborative housing partnership
- $1,000,000 to Oregon Law Center for legal help related to housing issues
- $1,500,000 to Mid-Columbia Community Action Center for a navigation center
- $500,000 to Special Olympics Oregon for sports training and athletic competition
- $250,000 to Friends of Tryon Creek State Park for park improvements
- $2,302,052 to Multnomah County School District #7 for the Reynolds High School Health Center
- $1,785,000 to Umatilla County Jail for the Expansion/Mental Health Facility
- $280,000 to City of Spray for an EMS Complex
- $630,000 to Illinois Valley Wellness Resources for the Illinois Valley Shelter and Resource Center
- $250,000 to Council on Aging of Central Oregon for the Central Oregon Senior Services Center Renovation
- $1,885,178 to City of Depoe Bay for Restoration of Pilings and Docks
- $1,000,000 to City of John Day for the Ne Kam Wah Chung Interpretive Center
- $1,546,000 to Harney County for Communication Upgrades
- $650,000 to Grant County for Public Safety Network
- $200,000 to Project DOVE for Transitional Units Updates
- $1,900,000 to Sheridan School District for CTEC West
- $500,000 to High Desert Rangeland Fire Protection Association for Lake County Wildland Fire Needs
- $150,000 to Bowman Museum for an Exhibits Center
- $600,000 to Creating Housing Coalition for Hub City Village
- $400,000 to Vietnam War Memorial Fund for a Vietnam War Memorial on the Oregon State Capitol Grounds
- $750,000 to City of Mosier for the Mosier Center
- $520,000 to Oregon Humane Society for the New Road Ahead Animal Crimes Forensic Center
- $1,800,000 to McKenzie Valley Wellness for McKenzie Valley Health Clinic Replacement
- $1,600,000 to Bend-Redmond Habitat for Humanity for the Quince Town Home Project
- $500,000 to City of Turner for Ball Brothers Seismic Upgrade
- $700,000 to The Trust for Public Land for the Butte Falls Community Forest Project
- $1,400,000 to Blue River Community Library for the Rebuild Project
- $903,520 to McKenzie Fire and Rescue for a Disaster Relief Logistics Center
- $200,000 to United Way of Jackson County for Affordable Home Ownership
- $1,400,000 to Community Counseling Solutions for the Boardman Regional PRTS/Sub Acute Children's Facility
- $1,800,000 to City of Umatilla for a Minority Entrepreneurial Development and Business Center
- $385,000 to Molalla Rural Fire Protection District for Wildland Fire Protection
- $2,100,000 to the Upper McKenzie Rural Fire Protection District for facility and equipment replacement
- $800,000 to the City of Salem for a Turnkey Project
- $816,000 to the City of Salem Police Body Cameras
- $1,000,000 to the City of Salem for a voucher program

- $10,500,000 to the City of Salem for shelters
- $5,000,000 to Multnomah County for the Arbor Lodge Shelter and Village
- $5,928,184 to Cherriots to offset expiring tax credits
- $718,079 to Yamhill County Transportation to offset expiring tax credits
- $288,451 to Columbia County Rider Transportation to offset expiring tax credits
- $44,975 to Lebanon Transportation to offset expiring tax credits
- $2,000,000 to the Jackson County Fire District for firefighter apprentices
- $2,000,000 to the Clackamas Fire District for firefighter apprentices
- $2,000,000 to the Eugene Springfield Fire Department for firefighter apprentices
- $2,000,000 to the Innovation Law Lab for Immigration Defense
- $1,500,000 to the Northwest Health Foundation II for public safety reform activities

A total of $173,499,294 Other Funds expenditure limitation was added for one-time disbursement of proceeds from 2021-23 Lottery Bond sales to fund numerous special projects across the state. A total of $4,615,761 Lottery Funds for debt service was provided to support debt payments on bonds that will be issued before the end of the biennium. Debt service payments on all the projects described below are estimated to be $29,350,840 Lottery Funds for the 2023-25 biennium, which is the first full biennium of repayments, and $292,995,727 over the life of the bonds. The approved projects and Other Funds amounts are:

- $7,500,000 to the Center for Hope and Safety for the Hope Plaza
- $2,000,000 to City of Gresham for the Gradin Community Sports Park
- $15,000,000 to Eugene Family YMCA Facility
- $5,400,000 to Jefferson County - Jefferson County Health and Wellness Center
- $5,000,000 to Oregon Coast Aquarium
- $3,500,000 to Parrott Creek Child and Family Services for building renovation
- $2,400,000 to Port of Cascade Locks - Business Park Expansion
- $12,000,000 to Klamath County for Klamath Crimson Rose
- $4,000,000 to the Latino Network for La Plaza Esperanza
- $6,921,150 to Willamette Education Service District for the Willamette Career Academy
- $5,000,000 to City of Eugene for Downtown Riverfront Park Development
- $15,000,000 to Woodburn Community Center
- $3,000,000 to Rogue River School District for the Rogue River Wimer Wellness Center
- $4,000,000 to East Lincoln County Fire and Rescue for the Eddyville Fire Hall
- $3,000,000 to Greater Toledo Aquatic and Community Center
- $10,000,000 to Multnomah County for Behavioral Health Resource Center
- $5,000,000 to City of North Plains for a Public Works/Emergency Operations Center
- $2,000,000 to City of John Day for the Central Grant County Aquatics Center
- $6,250,000 to Family Justice Center of Washington County for Family Peace Center
- $5,000,000 to Corvallis Homeless Shelter Coalition for Project Turnkey Corvallis
- $4,500,000 to Wasco County for the Columbia Gorge Resolution Center
- $4,000,000 to Port of Portland for PDX Seismically Resilient Runway Engineering Design
- $7,250,000 to Willamette Falls Locks and Canal
- $13,600,000 to City of Phoenix for a Public Safety Building
- $4,578,144 to Mid-Willamette Family YMCA for Multi-Purpose Sports Field Complex
- $2,800,000 to Serendipity Center for Believe In Me Campus Expansion
- $5,000,000 to OMSI District for New Water Avenue
- $2,500,000 to City of Lincoln City for the D River Welcome Center
- $4,300,000 to Port of Morrow for a Workforce Center
- $3,000,000 to City of Redmond for a Public Safety/Mental Health Triage Center

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget consists of $652,488,415 General Fund, $26,803,355 Lottery Funds, and $215,327,759 Other Funds. Nominal adjustments to General Fund, Lottery Funds, and Other Funds were made to reflect debt service savings and allow for use of fund balances.

The General Fund budget increased by $572,412,189 due to the following new legislative priorities and special projects:

- $56,298,00 for DAS to make one-time grants to various entities as part of a drought assistance packaged approved during the 2021 second special session
- Nearly $100,000,000 in one-time funding for a variety of programs that bolster and support the childcare sector
- $98,000,000 General Fund for distribution to various entities for the purpose of increasing affordable housing supply and supporting shelter and homelessness response efforts in specific communities.
- $3,064,383 for one-time distributions to certain entities for wildfire recovery efforts
- $51,650,992 for one-time distributions to various as part of a rural infrastructure package
- $286,573,714 for one-time distributions to various local governments and other entities for a range of activities, many of which involve facility improvements
- $10,000,000 for deposit into the Capital Projects Fund for state facility security and capital improvements
- $10,500,000 for deposit into the Universal Representation Fund, which is established in SB 1543 (2022) to provide a statewide, integrated, universal navigation and representation system for immigration matters.
- $5,000,000 for payment of legal services billed by the Department of Justice and court-awarded compensation, reimbursement of attorney's fees, and other costs associated with wrongful conviction claims. The General Fund is included in SB 1584 (2022), which creates a procedure for filing a petition for compensation for wrongful conviction and claim against the state.
- $4,000,000 for grants to the Portland Opportunities Industrialization Center (POIC), which include $1,500,000 to increase the capacity of the Healing Hurt People program to reduce community violence; and $2,500,000 for POIC to make grants to other nonprofit organizations for community violence prevention and intervention efforts. HB 4045 (2022) establishes the program criteria and related General Fund appropriation.
- $8,000,000 for eight grants of $1,000,000 each to specific local governments and nonprofit corporations that agree to create a coordinated homeless response system. HB 4123 (2022) establishes the General Fund appropriation for this purpose.

The $31,807,675 Other Funds increase includes $10,500,000 to allow for expenditures from the new Universal Representation Fund established by SB 1543 (2022). The remaining amount supports special payments associated with the disbursement of proceeds from Lottery Bonds approved in SB 5701 (2022) to be distributed as follows:

- $3,048,464 to the McKenzie River Discovery Center
- $15,210,747 to the City of Portland Parks and Recreation for the North Portland Aquatic Center
- $3,048,464 to the City of Milton-Freewater for the police and dispatch station.

Federal COVID-19 Support Payments

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Federal Funds	1,375,851,898	--	2,626,956,323	3,199,301,314
Total Funds	**$1,375,851,898**	**--**	**$2,626,956,323**	**$3,199,301,314**
Positions	--	--	--	11
FTE	--	--	--	6.09

Program Description

This program unit was created to track expenditures for federal Coronavirus Aid, Relief, and Economic Security (CARES) Act Coronavirus Relief Funds and American Rescue Plan Act (ARPA) payments received to address to the

COVID-19 public health emergency. This program unit will not include ARPA expenditures made by DAS that are directly related to the mission of the Department, such as ARPA expenditures made by the Chief Financial Office necessary to advise and track all state ARPA expenditures occurring in Oregon. All federal funds for general state support from the various federal spending bills are received by DAS. DAS then expends these monies as federal funds. If a different entity is responsible for final expenditures, that agency receives Other Funds expenditure limitation, with DAS accounting for this pass-through using federal funds expenditure limitation to send the money to the receiving agency.

Revenue Sources and Relationships

The CARES Act, which was signed into law on March 27, 2020, had an estimated cost of more than $2 trillion and included funding for a wide variety of programs to assist businesses, individuals, corporations, health service providers, and state and local governments. The Coronavirus Relief Fund is one part of the CARES Act that provided $150 billion to state, local, and tribal governments to address costs related to the COVID-19 public health emergency. Of the $150 billion, $8 billion was allocated for tribal governments, $3 billion for territories, and $139 billion for states based on population data. Local governments with a population of at least 500,000 were also eligible to request a direct payment from the U.S. Treasury. The state share of the $139 billion is reduced by the amount received by an eligible local government within that state. The Coronavirus Relief Fund also had a small-state minimum of $1.25 billion. Oregon's share of the Coronavirus Relief Fund was estimated at $1.64 billion. Three local governments within the state received direct payments from the U.S. Treasury totaling about $247 million (City of Portland, $114.2 million; Washington County, $104.7 million; Multnomah County, $28.1 million), leaving approximately $1.39 billion for the state. All state Coronavirus Relief Fund payments were received by DAS initially and expended as federal funds.

Almost all the Coronavirus Relief Fund funding was expended by the end of December 2020 because that was the original deadline for expenditure of all Coronavirus Relief Fund monies. This deadline was later extended to the end of 2021. Because of this extension, the 2021-23 legislatively adopted budget contained $65,476,928 Federal Funds expenditure limitation for the remaining monies from the CARES Act Coronavirus Relief Fund. Of this total, $16,303,591 was approved for carryforward of monies provided for COVID-19 vaccination incentives, including monies provided for County Vaccination Incentive grants. The remaining $49,173,337 represents the Coronavirus Relief Fund monies projected to be either uncommitted or unspent at the end of the 2019-21 biennium. This amount was transferred to the Department of Corrections for expenditures and activities to respond to the COVID-19 public health emergency.

The second major legislation containing general state support to address the public health emergency created by the COVID-19 pandemic is the American Rescue Plan Act. ARPA was signed into law on March 11, 2021 and included $350 billion of Coronavirus State and Local Fiscal Recovery Funds for eligible state, local, territorial, and Tribal governments to respond to the COVID-19 public health emergency and its economic impacts. ARPA provided an additional $10 billion to establish the Coronavirus Capital Projects Fund for state, territorial, and Tribal governments to carry out critical capital projects directly enabling work, education, and health monitoring, including remote options, in response to the COVID-19 public health emergency. Oregon's allocation of ARPA State Fiscal Recovery Funds totaled $2.648 billion with an additional Capital Projects Fund allocation of $156.8 million. A total of $1.505 billion was also allocated to local governments in Oregon and, with the exception of non-entitlement units of local governments, Local Fiscal Recovery Funds were distributed directly from U.S. Treasury to cities and counties. Non-entitlement units of local governments, or cities with a population of less than 50,000, receive distributions of Local Fiscal Recovery Funds through the state. Federal Funds expenditure limitation of $248.4 million was approved in SB 5547 (2021) for DAS to pass-through Local Fiscal Recovery Funds to non-entitlement units of local government in Oregon.

Final federal guidance on use of the State Fiscal Recovery Funds is still pending. However, U.S. Treasury adopted an interim final rule in May 2021 outlining the following eligible uses for costs incurred from March 3, 2021 through December 31, 2024:

- Supporting the public health response to the pandemic through public health services and programs that mitigate and prevent the spread of COVID-19. These include public health and safety staff time spent on COVID-19 related work, new behavioral healthcare if needs have been exacerbated by the pandemic, vaccination programs, and telemedicine.
- Addressing the pandemic's negative economic impacts through assistance to households, unemployed workers, small businesses, nonprofits, and impacted industries; contributions to the State's Unemployment Insurance Trust Fund; rehiring public sector staff; and implementing economic relief programs.
- Serving the hardest hit communities and families through programs, services, or other assistance that address health and/or educational disparities, invest in housing and neighborhoods, and promote healthy childhood environments. Eligible expenditures must be made in, or for families living in, a Qualified Census Tract or tied to populations that have demonstrated disproportionate impact from COVID-19.
- Providing premium pay for essential workers in critical infrastructure sectors. Premium pay of up to $13 per hour on top of wages, not to exceed $25,000 per eligible worker may be offered and should be prioritized to compensate low-income workers.
- Investing in water, sewer, and broadband infrastructure to improve access to clean drinking water, support wastewater and stormwater infrastructure, and expand broadband access.
- Providing government services to the extent of lost revenue, calculated using a specified formula based on General Revenue as defined in the guidance (not budgeted General Fund) and historical financial information. Government services can include health or educational services; provision of police, fire, or public safety services; and maintenance or pay-go funded building of infrastructure.

The U.S. Treasury interim guidance also specifies that ARPA State Fiscal Recovery Funds may not be used to reduce taxes; support non-federal match requirements; pay for legal settlements or judgments; make a deposit into a pension or rainy day fund; or pay for previously incurred debt.

<u>Legislatively Adopted Budget</u>
The 2021-23 legislatively adopted budget for Federal COVID-19 Support Payments includes $65.5 million in Federal Funds expenditure limitation to accommodate the expenditure of the monies from the CARES Act Coronavirus Relief Fund that were projected to remain unspent by the end of the 2019-2021 biennium. All other 2021-23 Federal Funds expenditure limitation in the DAS budget was approved for expenditure of ARPA funding.

The DAS 2021-23 legislatively adopted budget includes $2.63 billion in federal ARPA Coronavirus State Fiscal Recovery Funds. Federal Funds expenditure limitation was approved for the Department of Administrative Services to transfer ARPA funds to state agencies ($1.95 billion); provide $4 million to each Senate District and $2 million to each House District for project grants identified in the HB 5006 Budget Report ($240 million); and a grant to the Pendleton Round Up Foundation to partner with Blue Mountain Community College on the second phase of the Facility for Agricultural Resource Management project ($3 million). A total of $1.95 billion Other Funds expenditure limitation was established in state agencies' legislatively adopted budgets to expend ARPA funds transferred from DAS for programs, services, and investments supporting the state's pandemic response and recovery.

The budget also includes $120 million of ARPA Capital Projects Funds. Federal Funds expenditure limitation is established for DAS to transfer the funds to the Oregon Business Development Department (OBDD) for deposit in the Broadband Fund. Corresponding Other Funds expenditure limitation was established for OBDD to provide grants through the Oregon Broadband Office for the planning and development of broadband service infrastructure.

After accounting for amounts approved to be expended in the 2021-23 budget, the state has a residual balance of $489.8 million ARPA funding, including State Fiscal Recovery Funds ($453 million) and Capital Projects Funds ($36.8 million). This balance is available to address potential issues or budget changes that may arise once final federal guidance is issued on the use of funds. Federal law also allows funds to be used for state costs into the 2023-25 biennium.

Legislatively Approved Budget Update

The DAS 2021-23 legislatively approved budget includes $3,199,301,314 of Federal Funds expenditure limitation to fully allocate the remaining balances of the ARPA State Fiscal Recovery Fund ($453,054,009), the ARPA Capital Projects Fund ($36,795,418), and CARES Act Coronavirus Relief Fund. The $572,344,991 Federal Funds expenditure limitation increase from the 2021-23 adopted budget includes the following:

- $309,332,010 from the ARPA State Fiscal Recovery Fund for DAS to transfer to state agencies. Included in this amount is $123,100,000 to transfer the Higher Education Coordinating Commission, the Oregon Department of Education, and the Bureau of Labor and Industry for administering Future Ready Oregon workforce development programs established in SB 1544 (2022). Also included is $2,000,000 for distribution to the Special Districts Association of Oregon Grant Program as part of the rural infrastructure package.
- $105,000,000 from the ARPA State Fiscal Recovery Fund for distribution to the Housing and Community Services Department to support the Oregon Emergency Rental Assistance Program.
- $398,139 from the ARPA State Fiscal Recovery Fund for DAS Enterprise Information Services Division to enhance the functionality of the agency's Workday human resources information system to support case management and compliance needs.
- $26,323,860 from the ARPA State Fiscal Recovery Fund for DAS Enterprise Information Services Division to expend on the following enterprise-wide broadband and cybersecurity investments:
  - $7,250,000 to continue the state's partnership with Link Oregon.
  - $5,393,046 for contracted services to enhance the efficiency of network security operations, support the integrated risk management program, and maintain Security Operations Center infrastructure.
  - $7,230,256 to support the Cyber Security Services network security equipment lifecycle replacement plan.
  - $3,085,756 to plan the implementation of Microsoft 365 security tools.
  - $3,364,802 and 11 limited duration positions (6.09 FTE) to support planning efforts for the Network and Security Modernization Program.
- $36,795,418 from the ARPA Capital Projects Fund for distribution to OBDD for deposit in the Broadband Fund for grants to increase broadband internet availability across the state.
- $82,495,564 from the CARES Act Coronavirus Relief Fund for distribution to the Department of Human Services ($7,779,000) and the Department of Corrections ($74,716,564) for COVID-19 pandemic response activities.

ADVOCACY COMMISSIONS OFFICE

Analyst: Morse-Miller

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	708,032	767,440	1,238,100	1,692,600
Other Funds	9,841	9,841	9,841	9,841
Total Funds	**$717,873**	**$777,281**	**$1,247,941**	**$1,702,441**
Positions	3	3	4	7
FTE	2.50	2.50	4.00	5.89

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 OACO Administrator was previously appointed by the chairpersons of the four commissions and the Commissioner of the Bureau of Labor and Industries (BOLI). HB 2030 (2021) reassigns appointing authority from the BOLI Commissioner to the Governor.

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 currently account for less than 1% 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, 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, provides customized reports to the commissions on bills, helps the commission chairs write testimony on bills, coordinates votes among the commissions on bill support, and serves as the registered lobbyist for the commissions.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the OACO is a 74% increase from the 2019-21 legislatively approved budget. The increase is primarily due to the addition of a new full-time Public Affairs Specialist 2 position to engage with constituent communities, as well as increasing the agency's existing Operations and Policy Analyst 3 position from part- to full-time. The budget also includes funding to pay for the difference between the budgeted and actual costs of the agency's Administrator (Executive Director) position. A new Administrator was hired in February 2021 at a higher rate of pay than previously budgeted.

Legislatively Approved Budget Update

Based on actions taken during the 2022 regular session, OACO's budget increased by $454,500 General Fund and three positions (1.89 FTE). Under HB 4052 (2022), OACO was directed to convene affinity group task forces to develop recommendations that will be used by the Oregon Health Authority to advise on properly funding programs designed to prevent or intervene in health conditions that result in inequitable and negative outcomes for individuals who are Black or indigenous, people of color and members of tribes. This measure included a General Fund appropriation of $404,927 to support two limited duration Public Affairs Specialist 1 (PAS 1) positions to support two affinity groups each; and one limited duration Operations and Policy Analyst 3 position to conduct research and supervise the PAS 1 staff. The legislatively approved budget also includes previously approved employee compensation plan adjustments.

EMPLOYMENT RELATIONS BOARD

Analyst: To

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,844,094	3,281,932	3,257,926	3,350,085
Other Funds	2,723,342	2,594,847	2,577,311	2,649,723
Total Funds	**$5,567,436**	**$5,876,779**	**$5,835,237**	**$5,999,808**
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 for an estimated 3,000 employers and 275,000 employees, 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 of 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. It also administers the 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. Finally, ERB is responsible for 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 56% General Fund and 44% 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 84% of cases and state agencies 16% for fiscal year 2021. 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 2021-23 is $2.2 million, which is based on 38,000 covered employees and a $2.40 assessment per employee per month. This is up from the 2019-21 assessment of $2.34. State agency assessment revenue has a General Fund component since some agencies use General Fund to pay their assessment.

The agency charges fees for unfair labor practice complaints and answers, collective bargaining mediations, arbitrator panel, training, and mediation facilitation. ERB also charges miscellaneous fees for providing a variety of services, such as for legal filings submitted by facsimile and making copies of requested documents. An estimated $273,591 in revenue from these activities is anticipated for the 2021-23 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.

Overall, ERB expects to have $3.3 million in available Other Funds revenue to support its legislatively adopted budget of $2.6 million. This includes a beginning balance of $791,475 and a projected ending balance of $676,555 which represents a little over six months of operating reserves.

Budget Environment

Beginning in the 2013-15 biennium, at the behest of the Legislature, ERB undertook a number of changes to improve its processes and procedures, including: establishing timelines for issuing orders; identifying specific types of contested cases for expedited processing; involving stakeholders in a review of the agency's processes and procedures; establishing a Rules Advisory Committee; completing an independent review of some recent Board orders; and involving stakeholders in a discussion of complaint or other actions that lack legal merit. The result has been an elimination of all case backlogs and a substantial improvement in the timelines for processing cases. The agency also reviewed and updated its key performance measures. 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. ERB had in past biennia difficulty establishing and following a routinized methodology in the development of the State Agency Assessment rate, which triggered a statutory requirement for this to be done. ERB now follows a written rate development methodology and the agency routinely reviews and updates the number of covered and uncovered employees. Lastly, the Legislature approved an electronic case management application that includes an electronic filing and payment feature. This project was completed in the fall of 2020. ERB reports that the agency's transition to virtual services because of the COVID-19 pandemic has been successful and in part due to the recent addition of the electronic filing and case management system.

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. For fiscal year 2021, the agency had 17 state cases and 87 local government 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.

In Janus v. AFSCME Council 51, the U.S. Supreme Court overturned its precedent and held that it was unconstitutional for a public employee to have any agency fee or any other payment to a union deducted from the employee's wages unless the employee affirmatively consents to that deduction or payment. For Oregon, this has meant that many public-sector employers and labor organizations had their fair-share provisions invalidated. Additionally, the decision means that numerous provisions of Public Employee Collective Bargaining Act (PECBA) were also invalidated. The Legislature in 2019 passed HB 2016, which made changes as a result of the Supreme Court's decision. ERB states that there continues to be insufficient information to assess how both the Janus decision and the PECBA changes might affect the agency's filings.

Legislatively Adopted Budget

The legislatively adopted budget for ERB is $5,835,237 total funds, which includes $3,257,926 General Fund, $2,577,311 Other Funds, and 13 positions (13.00 FTE). The total funds budget is $267,801, or 4.8%, more than the 2019-21 legislatively approved budget. The budget includes an additional $97,305 for the Department of Administrative Services (DAS) volume-based charges above standard inflation.

Legislatively Approved Budget Update

The legislatively approved budget for ERB totals $5,999,808, including $3,350,085 General Fund and $2,649,723 Other Funds. The total funds budget is $164,571, or 2.8%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Administration

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,345,924	1,740,728	1,716,722	1,756,505
Other Funds	1,524,996	1,363,811	1,346,275	1,377,608
Total Funds	**$2,870,920**	**$3,104,539**	**$3,062,997**	**$3,134,113**
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 and 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 for 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 48 case filings each fiscal year with 53 Board orders issued. For fiscal year 2021, case filings totaled 43 with 46 Board orders issued. For fiscal year 2021, three board orders were appealed to the Oregon Court of Appeals, which is about 7% of the Board's 53 issued orders for that year. On average, 9% of the Board's orders are appealed to the Oregon Court of Appeals and less than 2% 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). The project was completed in the fall of 2020. The vendor charges an annual licensing and hosting fee estimated at $60,000 per-year, which was included in ERB's budget.

Legislatively Adopted Budget

The legislatively adopted budget for the Administration program totals $3,062,997, which includes $1,716,722 General Fund, $1,346,275 Other Funds, and five positions (5.00 FTE).

Legislatively Approved Budget Update
The legislatively approved budget for the Administration program consists of $1,756,505 General Fund and $1,377,608 Other Funds. The total funds budget is $71,116, or 2.3%, more than the 2021-23 legislatively adopted budget due to previously approved employee compensation plan adjustments.

Mediation Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	697,436	733,409	733,409	757,939
Other Funds	552,833	581,320	581,320	600,560
Total Funds	**$1,250,269**	**$1,314,729**	**$1,314,729**	**$1,358,499**
Positions	4	4	4	4
FTE	3.50	3.50	3.50	3.50

Program Description
The Mediation Division includes the Conciliation Services Office, which 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 88 cases for mediation services per fiscal year over the last 10 years, of which 70 are local cases and 18 are state cases. For fiscal year 2021, there were 60 cases, of which 48 were local cases and 12 were state cases. On average, it takes 26 days for a mediator to become available after the submission of a request. For fiscal year 2021, a mediator was available in 25 days. The agency’s mediation/conciliation service resolved an average of approximately 93% of contract negotiation disputes for strike-permitted employees and 78% for strike-prohibited employees. For fiscal year 2021, the agency resolved 90% of contract negotiation disputes for strike-permitted employees and 86% for strike-prohibited employees.

Legislatively Adopted Budget
The legislatively adopted budget for the Mediation Division totals $1,314,729, which includes $733,409 General Fund, $581,320 Other Funds, and four positions (3.50 FTE). The budget represents a $64,460, or 5.2%, increase from the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update
The legislatively approved budget for the Mediation Division totals $1,358,499, which includes $757,939 General Fund and $600,560 Other Funds. The total funds budget is $43,770, or 3.3%, more than the 2021-23 legislatively adopted budget due to previously approved employee compensation plan adjustments.

Hearings Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	800,734	807,795	807,795	835,641
Other Funds	645,513	649,716	649,716	671,555
Total Funds	**$1,446,247**	**$1,457,511**	**$1,457,511**	**$1,507,196**
Positions	4	4	4	4
FTE	4.50	4.50	4.50	4.50

Program Description

The Hearings Division 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.

Budget Environment

Over the last 10 years, ALJs average 122 cases per fiscal year and 119 days until an ALJ-proposed order is issued. For fiscal year 2021, ALJs received 100 cases and issued a proposed order in 105 days. In 2021, the agency had 30 representation (election) cases. Cases that did not require a hearing were resolved within 46 days, on average.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Hearings Division totals $1,457,511, which includes $807,795 General Fund, $649,716 Other Funds, and four positions (4.50 FTE). The total funds budget represents an increase of $11,264, or 1%), from the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Hearings Division totals $1,507,196, which includes $835,641 General Fund and $671,555 Other Funds. The total funds budget is $49,685, or 3.4%, more than the 2021-23 legislatively adopted budget due to previously approved employee compensation plan adjustments.

OREGON GOVERNMENT ETHICS COMMISSION

Analyst: Beitel

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	3,054,695	3,329,862	3,231,509	3,312,835
Total Funds	**$3,054,695**	**$3,329,862**	**$3,231,509**	**$3,312,835**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Overview
The mission of the Government Ethics Commission is to impartially and effectively administer and enforce Oregon's government ethics laws for the benefit of Oregon's citizens. Oregon government ethics laws, lobby regulation laws, and the executive session provisions of state public meeting laws are within the regulatory jurisdiction of the Commission. The Commission emphasizes education in achieving its mission and, together with its staff, provides related online and in-person training to public officials and lobbyists.

The Commission consists of nine members appointed by the Governor and confirmed by the Senate. Of these, eight are appointed upon recommendation by the Democratic and Republican leaders of the Oregon House and Senate, and one member is selected by the Governor. No more than three members may be from the same political party. Members were previously limited to one four-year term without the possibility of being reappointed. Effective January 1, 2022, commissioners will be able to serve two four-year terms due to the adoption of SB 63 (2021). The commissioners appoint an executive director to help administer the commission's business and direct the work of program staff.

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 advisory opinions to avoid violations when possible. 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 and decisions may be appealed to the state Court of Appeals.

Because of the COVID-19 pandemic, the Commission has adapted its training presentations to a virtual platform, which has enabled the Commission's trainers to customize its training based on the needs of each organization. The incorporation of virtual polling and questioning has allowed for a more interactive experience and provided important feedback to the Commission. The Commission expects to see a long-term shift from in-person to online training.

Revenue Sources and Relationships
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 on 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 the assessment revenues originate as General Fund.

One-time special assessments were approved in the 2013-15 and 2015-17 biennia to support the 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. Collections from fines and forfeitures vary from biennia to biennia. In 2021-23, the Commission estimates collecting $30,000.

Budget Environment

Approximately 200,000 public officials are subject to the Commission's jurisdiction, with the vast majority serving at the local government level. The Commission received 90 complaints in calendar year 2020, which is a 10.8% decrease from the 102 average annual complaints received from 2017 to 2020. During these four years, ethics represented 54% of the complaints, executive session complaints represented 44%, and lobby complaints represented 2%. The respondents during these four years were from the following jurisdictions: cities (39%), special districts (17%), education (15%), state (14%), counties (10%), and other (5%).

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, and reduced the number of days allowed for the preliminary review of an ethics investigation from 135 to 30 days with no option for extension. The number of allowable preliminary review days was subsequently increased to 60 through the passage of SB 60 (2021).

The 2015 reforms also required 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 charges can be a major variable in the Commission's budget. The 2021-23 legislatively adopted budget was developed using the Attorney General's flat (biennial) rate model for attorney fees used since the 2011-13 biennium. This model was subsequently discontinued by the Department of Justice and the Commission is instead being billed based on the Attorney General Office's hourly rates for legal services during the 2021-23 biennium. Despite this change, the Commission projects that attorney fees will remain within the budgeted amount based on recent activity, but this will ultimately depend on the number of cases throughout the remainder of the biennium.

Legislatively Adopted Budget

The Commission's 2021-23 legislatively adopted budget is $3.2 million Other Funds and includes nine positions (9.00 FTE). The adopted budget is $176,814, or 5.8%, more than the 2019-21 legislatively approved budget. The Other Funds revenue available to support the budget includes an estimated $3.1 million from assessments and a beginning balance of $666,687.

Legislatively Approved Budget Update

Based on actions taken during the 2022 regular session, the Commission's legislatively approved budget totals $3.3 million Other Funds, which is an increase of $81,326, or 2.5%, from the legislatively adopted budget. The increase is due to previously approved statewide employee compensation adjustments.

OFFICE OF THE GOVERNOR

Analyst: Siebert

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	16,705,068	17,692,863	20,272,170	19,921,917
Lottery Funds	4,106,514	4,632,309	4,552,709	4,661,117
Other Funds	6,355,963	4,429,555	4,328,547	4,465,499
Total Funds	**$27,167,545**	**$26,754,727**	**$29,153,426**	**$29,048,533**
Positions	62	61	69	66
FTE	61.63	61.00	68.83	65.05

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 clerical support for appointing members to boards and commissions. During the 2021 legislative session, the Office of Immigrant and Refugee Advancement was created within the Office of the Governor by SB 778.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by General Fund. Lottery Funds are used for the Regional Solutions program and 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 (DAS) assessment. The Economic and Business Equity program is funded from assessments on agencies that have capital construction in their budgets and 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 the following biennium.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. The Office has often augmented its staff by borrowing staff from existing agencies or by hiring staff and having other agencies pay the salaries. Because of this the source of funding for positions in the Governor's Office is an ongoing concern, especially when the positions and funding sources are not explicitly part of the Governor's Office budget. 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

The 2021-23 legislatively adopted budget of $29.2 million is $3.5 million above the prior biennium level and is $1.3 million, or 9%, above the current service level. The adopted budget included the following additions:

- $598,516 General Fund for two permanent positions (2.00 FTE) to support the Racial Justice Council. The two positions include a Principal Executive Manager G (PEM G) and an Executive Support Specialist 2. The PEM G position serves as the chief policy advisor to the council and organization lead in the Governor's Office in charge of developing, implementing, and integrating best practices and emerging best practices relating to racial justice. This Council was codified in HB 2167 (2021).
- $198,125 General Fund for second biennium funding for the mediation between representatives of the forest industry and environmental interests in accordance with a Memorandum of Understanding announced by the Governor on February 10, 2020. $75,000 of the funding added for the 2021-23 biennium was assumed when

initial funding was approved in the June 2020 special session, with the remaining amount from funding provided in 2019-21, but not expended.

- $176,680 General Fund to complete the survey work of the Governor's Wildfire Council that was begun in 2020, but not completed due to competing priorities including pandemic response.
- $1,376,037 General Fund and four positions (3.83 FTE) to implement SB 778 (2021), which established the Office of Immigrant and Refugee Advancement. The purpose of this office is to develop, implement, maintain, and oversee statewide immigration and refugee programs and services that coordinate with long-term support services to meet the needs of immigrant and refugee populations in Oregon.
- $497,541 General Fund to support a State Wildfire Program Director and the Wildfire Programs Advisory Council as part of a comprehensive wildfire response package in SB 762 (2021).
- $237,161 General Fund and one permanent fulltime position (1.00 FTE) to support the Homeland Security Council and the Emergency Preparedness Advisory Council. HB 2927 (2021) transferred the Oregon Homeland Security Council from OEM to the Office of the Governor, adds members to and modifies the duties of the Council, and directed the Emergency Preparedness Advisory Council to advise and make policy recommendations to the Oregon Homeland Security Council regarding federal emergency support functions.

Legislatively Approved Budget Update

The budget for the Office of the Governor experienced a net decrease of $104,893 total funds, or 0.4%, during the 2022 session compared to the 2021-23 legislatively adopted budget. This net decrease was caused by the passage of SB 1550 (2022) which transferred the Office of Immigrant Advancement to the Department of Human Services, resulting in a reduction of $1,376,037 General Fund and four positions (3.83 FTE). The Office of Immigrant Advancement was created in the Office of the Governor during the 2021 session with the passage of SB 778 but was never established by the Governor.

The Legislature added $365,928 General Fund to appoint a Corrections Ombudsman position. The current Governor has not appointed anyone to serve as the Corrections Ombudsman during their administration despite the position being required by statute. The ombudsman position provides access to an independent individual with knowledge of the DOC policies and procedures, as well as the legal and constitutional protections afforded to inmates in DOC custody. The Legislature also approved a $199,106 General Fund increase to fund a corrections gender-responsive coordinator. The position will assist in the assessment of the Coffee Creek Correctional Facility being conducted by DAS and ensure that those who are incarcerated or formerly incarcerated are able to participate in the assessment process. Work on the DAS study is anticipated to start by September 1, 2021.

STATE LIBRARY OF OREGON

Analyst: To

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	4,081,203	4,534,451	4,463,754	4,538,886
Other Funds	7,205,514	7,550,220	7,250,105	7,429,467
Federal Funds	5,285,859	5,581,208	7,924,165	7,977,520
Total Funds	**$16,572,576**	**$17,665,879**	**$19,638,024**	**$19,945,873**
Positions	41	40	41	41
FTE	39.04	38.47	39.47	39.47

Overview

The State Library of Oregon (SLO) 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

The State Library is funded with a combination of General Fund, Other Funds and Federal Funds. Other Funds revenues are mostly generated from an assessment on state agencies. By statute, two-thirds of the assessment is apportioned to agencies based on their number of budgeted full-time equivalent employees and one-third on their use of the State Library during the prior biennium. Estimated state agency assessment revenue for 2021-23 is $7.1 million. While state agency assessment revenue is Other Funds in the State Library budget, a portion of the revenue originates as General Fund according to the revenue agencies use in their budgets to pay the assessment. Other Funds revenues are also comprised of donations, interest income, and miscellaneous receipts. The State Library estimates receiving $300,000 in donations, $20,950 in interest income, and $20,000 in miscellaneous receipts for the 2021-23 biennium.

The State Library 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 2021-23 budget assumes Federal Funds pursuant to this grant in the amount of $5 million. The LSTA grant requires a 34% state match 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 expenditures result in an identical percentage reduction in LSTA funding, although states can request and receive a federal waiver to this requirement under specific circumstances. Federal Funds primarily support statewide services and competitive grants to libraries; a limited amount may also be spent on administrative expenses.

Budget Environment

HB 3523 (2015) restructured the mission and governance of the State Library. The “Trustees of the State Library” was renamed the “State Library Board” and membership was expanded. Additionally, the State Librarian position was changed from a board appointee to a gubernatorial appointee beginning in 2017. The State Reference Coordinating Council was also created by statute in 2015 and consists of the State Librarian, State Archivist, and State of Oregon Law Librarian. Its purpose is to coordinate delivery of library information and services between the State Library, State Archives, and the State of Oregon Law Library and to reduce duplication of effort. The State Library was also provided authority to approve the selection, purchase, and maintenance of reference databases and subscriptions for state agencies to reduce duplication of state agency materials. In 2020, a new three-year strategic plan was adopted by the State Library Board.

Due to the COVID-19 pandemic, the State Library reported a greater demand for its consultation services which increased the amount of support provided to local libraries. The impact the pandemic has had on SLO services is discussed in more detail below.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the State Library of Oregon totals $19,638,024 and includes 41 positions (39.47 FTE). The budget is $3.1 million, or 18.5%, more than the 2019-21 legislatively approved budget. The increase is primarily due to $2.9 million in Federal Funds received through the American Rescue Plan Act.

Legislatively Approved Budget Update

Based on actions taken during the 2022 regular session, the legislatively approved budget for the State Library of Oregon consists of $4,538,886 General Fund, $7,429,467 Other Funds, and $7,977,520 Federal Funds. The total funds budget is $307,849, or 1.6%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Operations

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	86,019	128,176	128,176	132,500
Other Funds	1,932,158	2,131,969	2,124,921	2,177,394
Federal Funds	175,923	171,445	171,445	177,055
Total Funds	**$2,194,100**	**$2,431,590**	**$2,424,542**	**$2,486,949**
Positions	7	8	8	8
FTE	6.68	7.68	7.68	7.68

Program Description

The Operations Division is responsible for administrative functions of the agency, including fiscal management, information technology, volunteer coordination, communications, and State Library Board support. SLO contracts with the Department of Administrative Services for its human resource and accounting functions.

Revenue Sources and Relationships

The Operations Division is funded primarily with Other Funds from the state agency assessment.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Operations Division totals $2,424,542 and includes eight positions (7.68 FTE). The budget is 8.4% more than the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update

The legislatively approved budget consists of $132,500 General Fund, $2,177,394 Other Funds, and $177,055 Federal Funds. The total funds budget is $62,407, or 2.6%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Library Support and Development Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	2,396,696	2,505,737	2,649,600	2,674,017
Other Funds	148,785	155,215	21,916	21,916
Federal Funds	5,109,936	5,409,763	7,752,720	7,800,465
Total Funds	**$7,655,417**	**8,070,715**	**$10,424,236**	**$10,496,398**
Positions	8	8	9	9
FTE	7.50	7.50	9.00	9.00

Program Description

The Library Support and Development Services Division provides consultation services, professional development, statewide library services, and state and federal grant administration to approximately 1,600 local, academic, school, and tribal libraries in Oregon. The Division administers state funded Ready to Read grants to any legally established public library in Oregon to establish, develop, and improve early literacy and summer reading programs. The Division also administers federal grant funding from the Institute of Museum and Library Services Grants to States Program, which distributes federal Library Services and Technology Act (LSTA) funding to all state library agencies. This funding supports statewide library services including the Answerland online reference service, Oregon School Library Information System, and Statewide Database Licensing Program.

Revenue Sources and Relationships

The Library Support and Development Services Division is funded with 25% General Fund, 1% Other Funds, and 74% Federal Funds. The budget for this program includes federal funding from the Institute of Museum and Library Services under the LSTA grant. The Division's General Fund budget helps fulfill the federal LSTA match and maintenance of effort requirements.

Budget Environment

The Library Support and Development Services Division budget is driven by personnel costs, Ready to Read grants to Oregon Libraries, and statewide services and competitive grants to libraries through federal grant funding. Ready to Read grants are calculated using a 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 a minimum grant of $1,000 for each library in a fiscal year. SLO works with local libraries to encourage participation, develop early learning activities, and use the state's Ready to Read funds in cooperation with other local early learning efforts. Ready to Read Grants were distributed to 132 eligible libraries during the 2020 grant cycle.

Nine LSTA competitive grants were awarded during Federal Fiscal Year 2020. The State Library also provided two grant opportunities because of the COVID-19 pandemic. COVID-19 Response Mini-Grants re-allocated LSTA funds from other projects and programs to support immediate needs related to the pandemic and an allocation from the Coronavirus Aid, Relief, and Economic Security Act provided grants to address digital inclusion and related technical support.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Library Support and Development Services Division totals $10,424,236 and includes nine positions (9.00 FTE). The total funds budget is 37% more than the 2019-21 legislatively approved budget. An increase in Federal Funds expenditure limitation of $2.9 million accounts for most of this increase and reflects American Rescue Plan Act (ARPA) funds awarded to SLO for five project areas. These areas include connectivity; digital equity and inclusion; equity, diversity, inclusion, and antiracism; needs arising from the pandemic; and workforce development. One Administrative Specialist position (1.00 FTE), supported with Federal Funds, is provided to help with the disbursement of ARPA funds.

Legislatively Approved Budget Update
The legislatively approved budget for the Library Support and Development Services Division consists of $2,674,017 General Fund, $21,916 Other Funds and $7,800,465 Federal Funds. The total funds budget is $72,161,. or 0.7%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Talking Book and Braille Library

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	1,598,488	1,900,538	1,685,978	1,732,369
Other Funds	334,240	326,293	279,526	283,618
Total Funds	**$1,932,728**	**$2,226,831**	**$1,965,504**	**$2,015,987**
Positions	8	8	8	8
FTE	8.24	7.98	7.48	7.48

Program Description
In cooperation with the Library of Congress, which provides books, book players, and postage at no cost to Oregon, the Talking Book and Braille Library program 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 throughout the state. SLO 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. Program participants do not pay a fee for the services. The program also provides access to Braille and Audio Reading Download, 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.

The program implemented Duplication on Demand in 2020, which increased title availability, eliminated wait time for popular titles, and increased the number of titles a patron can have at one time. Duplication on Demand is a system that allows talking book libraries to create customized digital cartridges containing titles requested by patrons from the entire Library of Congress' National Library Service for the Blind and Print Disabled collection of more than 90,000 titles.

Revenue Sources and Relationships
The program is funded primarily with General Fund for personnel costs, services and supplies, and operational costs. Other Funds revenues for the program include donations and bequests to the Talking Book and Braille Library donation fund. These funds count towards the federal LSTA match and maintenance of effort requirements.

Budget Environment
In 2020, 5,004 Oregonians registered for the Talking Book and Braille Library service and the average use per registered user was 69 items per year. The number of registered users has remained constant for the past decade since a high of 7,156 in 2005. Over the past decade the percent of circulated items as digital downloads increased from 10% to 34% and is projected to be 38% for the 2021-23 biennium.

A challenge for the program continues to be its registration penetration rate, and in particular, younger non-registrants as current registrants are predominately over 60 years old.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Talking Book and Braille Library Division consists of $1,685,978 General Fund, $279,529 Other Funds, and eight positions (7.48 FTE). The program's total funds budget is 2% more than the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update

The legislatively approved budget for the Talking Book and Braille Library Division consists of $1,732,369 General Fund and $283,618 Other Funds. The total funds budget is $50,483, or 2.6%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Government Information and Library Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	4,790,331	4,936,743	4,823,742	4,946,539
Total Funds	**$4,790,331**	**$4,936,743**	**$4,823,742**	**$4,946,539**
Positions	18	16	16	16
FTE	16.62	15.31	15.31	15.31

Program Description

The Government Information and Library Services Division provides library services to state employees including research assistance, professional development, and instruction. Through the embedded librarian program, which was implemented during the 2015-17 biennium, each state agency is assigned a librarian to provide specialized assistance and resources to support state agency staff in their work. The Division preserves state agency publications and makes them accessible through the Oregon Digital Collections website. The Division also collects and manages print and online resources focused on the research needs of government employees and provides inter-library loan services to acquire requested resources owned by other libraries.

Revenue Sources and Relationships

The program is funded entirely with Other Funds from the state agency assessment.

Budget Environment

The program provides access to almost 100 databases for research, reference assistance, document delivery, and interlibrary loan services. State employees are projected to have 4,000 research transactions for the 2021-23 biennium, which is 14% less than the prior biennium. Program staff are projected to conduct 200 outreach and training presentations for the 2021-23 biennium, which is 24% more than the 2019-21 biennium. Due to the COVID-19 pandemic, these presentations have been held remotely.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Government Information and Library Services totals $4,823,742 Other Funds and includes 16 positions (15.31 FTE). The budget is $26,363, or 1%, more than the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update

The legislatively approved budget for Government Information and Library Services consists of $4,946,539 Other Funds and is $122,797, or 2.5%, more than the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

OREGON LIQUOR AND CANNABIS COMMISSION

Analyst: Deister

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	263,372,138	268,170,757	391,328,393	476,284,237
Total Funds	**$263,372,138**	**$268,170,757**	**$391,328,393**	**$476,284,237**
Positions	365	363	384	386
FTE	362.29	361.00	381.25	382.16

Overview

The Oregon Liquor and Cannabis Commission (OLCC), formerly known as Oregon Liquor *Control* Commission, 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 acts when necessary against those who violate liquor laws. Since January 2016, OLCC has also regulated growers, producers, wholesalers and retailers of recreational marijuana, and tracks and inspects medical marijuana grow sites, processors, and dispensaries of medical marijuana. The seven-member Commission is appointed by the Governor and confirmed by the Senate.

Revenue Sources and Relationships

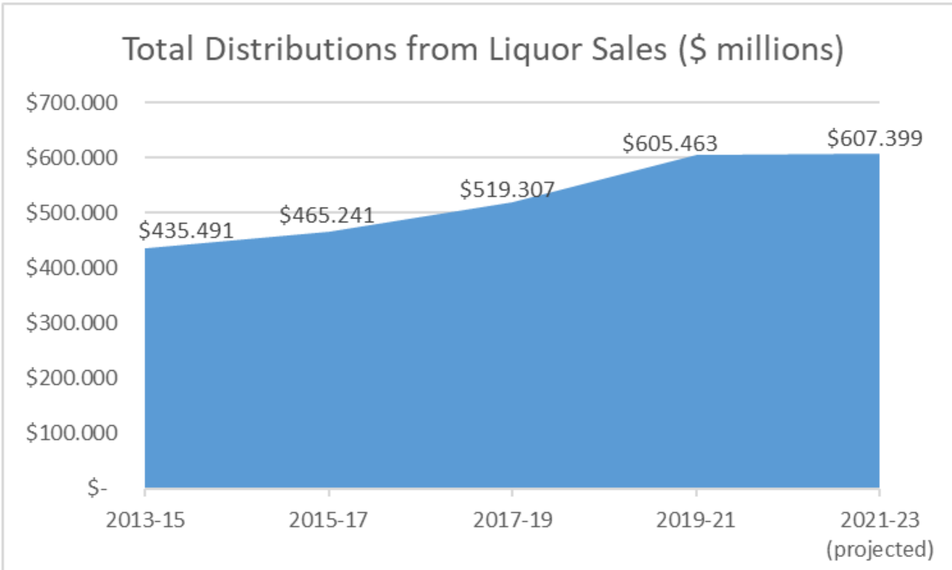
The Commission is entirely supported by Other Funds revenues from the regulation of liquor and recreational marijuana. Revenue from marijuana is taxed at the point of sale and collected by the Department of Revenue. For the 2021-23 biennium, revenue will first be disbursed to the Department of Revenue for its administrative costs; $875,000 per quarter is transferred to OLCC for its ongoing regulatory costs related to medical marijuana; and then distributed for the following purposes per statute:

- 73.24% for drug treatment and recovery
- 10.7% for the State School Fund
- 5.3% for purposes for which funds in the Mental Health, Alcoholism and Drug Services Account may be used
- 4% for state police
- 2.7% to cities, based on population and number of licensees
- 2.7% to counties, based on total available grow canopy size and number of licensees
- 1.3% for alcohol and drug abuse prevention, early intervention, and treatment services

The September 2021 revenue forecasts $337.77 million in marijuana taxes available for these distributions. The Legislature directed that OLCC's recreational marijuana regulatory costs to be self-supporting through fees charged to licensees, which are estimated to generate $24 million in the 2021-23 biennium. With marijuana regulatory expenses estimated at 6.1% of total expenditures, the estimated 2021-23 ending balance in marijuana licensing revenue is anticipated to be $4.1 million (equivalent to 4.1 months of operating expenditures). No fee increases are anticipated to be required in either alcohol or marijuana-related licensing fees in 2021-23.

Revenue generated from the liquor side of the agency's responsibilities is comprised of a markup on distilled spirits offered for sale in Oregon (94%, $1.6 billion); privilege taxes on malt beverages (beer) and wine (2.4%, $40.6 million); and licensing fees and fines, server education fees, and miscellaneous income (3.6%, $20.8 million). Unless otherwise directed, a statutory distribution formula specifies that -- after agency expenses, including purchase of liquor from distributors -- 50% of the privilege tax revenues are first allocated for payments to the Mental Health Alcoholism and Drug Services Account ($20.3 million), and then $745,000 is assumed to be transferred to the Wine Advisory Board (the Wine Board is also the recipient of $4 million in pass-through grape tonnage tax revenue collected by OLCC). 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 2021-23 biennium, per the legislatively adopted budget and the September 2021 Oregon Economic and Revenue Forecast, are projected as follows: $346.5 million to the General Fund; $109 million for city revenue sharing; $76.3 million to cities; and $54.5 million to counties. A $0.50 per bottle surcharge is also imposed by OLCC, with revenue dedicated exclusively to the General Fund. Of the $346.5 million General Fund share, $41.3 million is attributable to this surcharge.

The following illustrates liquor revenue distribution to state and local governments since the 2013-15 biennium:



Although 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.

For the 2021-23 biennium, bond proceeds issued pursuant to Article XI-Q of the Oregon Constitution fund infrastructure projects for the OLCC. These projects are discussed later in further detail.

Budget Environment

Since the passage of Ballot Measure 91 in November 2014, OLCC has struggled to maintain staffing levels sufficient to meet demand for services in both the marijuana regulatory and liquor programs. The agency has been unable to effectively fill vacancies due to recruitment failures and internal promotions. The amount of human resource-related work exceeds the capacity of existing central services human resource professionals. Liquor agent compensation in areas with a higher cost of doing business have lagged behind the consumer price index.

Population growth is driving consecutive biennium-over-biennium increases in sales, but space limitations in the existing OLCC distribution center and warehouse facilities threatened to limit the amount of revenue that may be realized. Meanwhile, time-intensive and complicated marijuana licensing renewals have required additional investigation and follow-up and resulted in OLCC pausing action on new license applications since June 15, 2018.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget addressed the issues cataloged above by authorizing bonds for construction of a new OLCC warehouse, headquarters, and information technology applications, and for new personnel resources to provide capacity in human resources, information technology, administrative hearings, licensing and enforcement, regulation of inhalants, and enforcement of hemp laws. New compensation formulas for contract store agents and distillers who sell from tasting rooms were enacted into statute.

The 2021-23 legislatively adopted budget totals $3913 million Other Funds, which is an increase of $128 million, or 48.6%, from the 2019-21 legislatively approved budget. The increase is primarily due to a projected $62.5 million in capital investments, $27 million in information-technology related expenditures funded through bonds, and associated debt service. An additional $17 million in expenditure limitation is attributable to increases in agent compensation. The 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.

Legislatively Approved Budget Update

Based on actions taken during the 2022 regular session, the 2021-23 legislatively approved budget is an $85 million, or 21.7%, increase from the 2021-23 legislatively adopted budget. Previously approved statewide changes to employee compensation account for $3.4 million of this change. The passage of policy bills resulted in the addition of two permanent positions (0.91 FTE) and attendant Other Funds expenditure limitation. The Legislature approved additional expenditure limitation to complete the agency's beer and wine privilege tax reporting system, and to repair infrastructure in the Milwaukie headquarters building. The Legislature also approved the issuance of additional bonds for the new warehouse/headquarters facility, and for a conveyor and order fulfillment system due to funding gaps that emerged due to inflation, supply chain issues and demand for developable land since the projects were initially priced in 2018.

Distilled Spirits

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	35,570,857	33,587,162	69,497,386	67,641,936
Total Funds	**$35,570,857**	**$33,587,162**	**$69,497,386**	**$67,641,936**
Positions	79	77	77	77
FTE	79.00	77.00	77.00	77.00

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 108%, 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 liquor stores 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. There are another 93 distiller outlets (sales from tasting rooms).

Budget Environment

OLCC continues to experience a positive rate of revenue growth. The 2021-23 legislatively adopted budget assumes gross sales of $1.64 billion, which includes $41.3 million from continuation of the bottle surcharge. Retail sales have been growing about 10% per biennium. This level of growth was not impacted by the COVID-19 pandemic; despite temporary closures and capacity limitations, sales in retail stores to individuals increased sufficient to offset any decrease in sales to on premises licensees. The pandemic has also resulted in changes to business models, driving requests for premises expansions, locations, closure and reopening, as well as requests for rule changes and deferral of fees. The emergence of “cocktails in a can” and changes to bottle redemption rules, including new refund value, new beverages, and an expansion of the number of redemption centers, is expected to influence the need for potential space and staff time within this division during the 2021-23 biennium.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Distilled Spirits program is 131.7% more than the 2019-21 legislatively approved budget. The Legislature approved Other Funds expenditure limitation of $270,000 for equipment replacement related to distribution center operations and health and safety. Another $27.4 million, supported by bond proceeds, was approved to fund information technology improvements at the agency. Of this amount, $390,000 is attributable to cost of issuance. The IT improvements include a distribution center sales and inventory management system, and automated licensing and enforcement capabilities for both the alcohol and marijuana programs.

Other Funds expenditure limitation for debt service and cost of issuance on Article XI-Q bonds for the purchase of land and construction of a new headquarters building and warehouse/distribution center and a conveyor-based order fulfillment system is also budgeted in this program, and totals $8.4 million. Article XI-Q Bond proceeds are budgeted separately as capital projects; more detail and project timelines are included in that section of this analysis.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $1.9 million decrease from the 2021-23 legislatively adopted budget, primarily because of changes in required debt service resulting from delaying the bond sale for the conveyor and order fulfillment system.

Public Safety Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	28,276,763	28,015,055	29,671,976	30,904,753
Total Funds	**$28,276,763**	**$28,015,055**	**$29,671,976**	**$30,904,753**
Positions	118	110	116	117
FTE	116.00	108.00	114.00	114.58

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 has five regional offices (including its headquarters in Milwaukie) and eight satellite offices, and 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.
- 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 December 30, 2020, OLCC oversaw more than 14,939 alcohol licensees, including: 7,452 restaurants and bars; 5,459 grocery and convenience stores; 1,22 wineries; 436 brewers/brew pubs; 230

distributors/wholesalers; and 140 distilleries. In addition, OLCC issued 16,000 special event licenses, 4,081 out-of-state certificates, and 165,000 service permits.

  - Active Marijuana licenses as of the same date totaled 2,396, which include: 20 laboratories; 273 processors; 1,182 producers (growers); 731 retailers; 189 wholesalers; and one research license. Marijuana worker service permits issued totaled 56,657.

- Administrative Hearings 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. OLCC has begun using data analytics to set inspection priorities and prevent diversion of recreational marijuana. Minor decoy inspections are expected to resume in the 2021-23 biennium after being temporarily paused in 2020 due to the pandemic.

Marijuana licenses are responsible for a disproportionate number of licensing violations and administrative hearings, which has resulted in cases taking longer to resolve and missed performance measure targets. OLCC has experienced difficulty in successfully recruiting and retaining candidates to fill vacancies in licensing and enforcement positions, the number of which have increased dramatically as the recreational marijuana licensing program has matured since its inception in 2016. Only when existing vacancies are filled and staff are trained will the agency be able to accurately assess and demonstrate any remaining workload needs.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Public Safety Services is a 6.3% increase from the 2019-21 legislatively approved budget. Two permanent manager positions and expenditure limitation were approved to improve manager/staffing ratios, and funding for 10 temporary positions serving as minor decoys was also included. Four permanent positions related to administrative hearings were also approved to process violations and adjudicate cases in a timely manner. The four positions and associated $1 million in Other Funds expenditure limitation will be funded by marijuana related licensing revenue.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget is a $1.2 million increase from the program’s 2021-23 legislatively adopted budget. Most of the increase is due to statewide adjustments to employee compensation. The passage of HB 4074 (2022) also added one position (0.58 FTE) and $155,127 in Other Funds expenditure limitation to fulfill obligations related to human trafficking reporting by marijuana licensees.

Administration and Support Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	28,787,509	30,441,465	$32,579,366	$34,087,172
Total Funds	**$28,787,509**	**$30,441,465**	**$32,579,366**	**$34,087,172**
Positions	76	85	90	91
FTE	76.00	85.00	90.00	90.33

Program Description

The Administration and Support Services program is central to both the public and inward-facing day-to-day operations of the OLCC, including 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. Marijuana licensing revenue funds approximately 26% of the program's personnel expenditures, while the medical marijuana program contributes another 7%.

The Administration and Support Services program consists of the following divisions:

- Administration – Includes Human Resources and is responsible for ensuring the goals of the agency are implemented and policy as articulated by the Commission is carried out.
- Policy, Analytics, Communications and Education (PACE) – Includes performance measurement, statistical analysis, request-for-proposal development, research, communications, and alcohol education.
- 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, and 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 desktop computers 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

A central challenge for OLCC remains recruiting and training for the staffing needs arising from the agency's growth over the last several biennia. In May, 2021, OLCC had 56 vacant positions, or 15% of its current service level total. An emphasis on employee recruitment, training and retention is necessary to ensure OLCC is able to fully leverage its existing position authority and meet its performance targets in the areas of licensing, enforcement, and distribution.

The number of liquor stores has grown by 20% since 2017, and more stores are planned in coming biennia. The number of auditors in the financial services section has remained stagnant, posing a risk to financial integrity and the ability to accurately assess and project revenue from liquor sales.

Information systems modernization is a multi-biennial, multi-project effort to replace insufficient, outdated, and unsupported technology. Should projects fail to be appropriately managed or coordinated, delays, cost overruns, and failure become significant risks for the agency, and -- as the third largest source of General Fund revenue -- the state.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Administration and Support Services represents a 16% increase from the 2019-21 legislatively approved budget. The legislatively adopted budget includes the following adjustments:

- Four additional permanent positions for human resources-related work to meet internal demand for position recruitment, leave, benefits administration, labor relations, classification and compensation analysis and safety considerations. One of these positions will serve as a full-time dedicated trainer to establish training programs for managers (many of whom have been internally promoted but have no formal supervisory training), develop cross training curricula to maximize efficiencies within divisions, and support diversity and inclusion efforts within OLCC. Other Funds expenditure limitation associated with these positions is $1 million.
- One liquor auditor position was added to accommodate growth in the number of liquor stores. In addition, payroll services will be contracted to the Department of Administrative Services rather than performed in-house. The total Other Funds expenditure limitation associated with these changes is $394,185.
- Subscription and maintenance costs of a new online privilege tax reporting system that went online late in the 2019-21 biennium require an additional $1.1 million in expenditure limitation in the 2021-23 biennium.

- Position adjustments, consisting of reviewed and approved reclassifications and the elimination of two positions vacant for an extended period resulted in a net decrease of $309,929 in Other Funds expenditure limitation .
- Consolidation of Microsoft 365 licensing, state government service charges, and attorney general rates were also adjusted, resulting in combined savings of $587,952 Other Funds.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget increased by $1.5 million for Administration and Support Services due to statewide adjustments to employee compensation and the following increases:
- $504,0000 in Other Funds expenditure limitation for improvements to the agency's beer and wine privilege tax reporting system before it was due to be rolled out to wine licensees; and
- One position (0.33 FTE) and $101,426 in Other Funds expenditure limitation to support OLCC's responsibilities related to the passage of HB 4074, which created new, ongoing obligations for reporting and tracking beverage distributor participation in redemption programs.

Store Operating Expenses

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	$144,100,000	148,383,772	166,885,952	166,885,952
Total Funds	**$141,100,000**	**$148,383,772**	**$166,885,952**	**$166,885,952**

Program Description

This program includes expenditure limitation for liquor revenues to pay contract agents who operate the state's retail liquor outlets, and a commission for distillers who sell spirits out of tasting rooms. The program is funded from liquor revenues received by OLCC. Out of the compensation, retail 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

Prior to the passage of SB 316 and HB 2740 during the 2021 regular legislative session, ORS 471.750(3) gave the Commission authority to determine the compensation of liquor agents. Agents' compensation comprises 43% 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 have major implications to OLCC expenditures, and, by extension, the amount of revenue distributed to the General Fund.

The rate of monthly compensation for retail 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. Between 1995 and 2019, OLCC budgeted funding for retail agent compensation based on an average rate of compensation -- across all classes of stores -- from an average of 8.2% and 9.02% of sales. At the direction of the Legislature, OLCC worked with agent stakeholders after the 2019 regular legislative session to devise an updated compensation formula that was supported by agents. These formula changes were included in SB 316 (for distillery agents) and HB 2740 (for retail agents); future changes to these compensation formulas will have to be approved via statutory changes, rather than through commission action.

Legislatively Adopted Budget

Expenditure limitation in the amount of $166.9 million is authorized for the 2021-23 legislatively adopted budget, which was adjusted for the passage of HB 2740 (retail agents' compensation) and SB 316 (distillery agents' compensation). For retail agents, store classes and base compensation amounts have been revisited, and factors including retail leases and automatic escalators are now incorporated based on location, to better reflect cost differences in various regions of the state. The passage of HB 2740 resulted in an increase in Other Funds expenditure limitation associated with retail agent compensation in the amount of $13.5 million based on estimates of sales.

Other Funds expenditure limitation was increased by $3.5 million related to distillery agent compensation changes contained in SB 316. In 2019, the funding for distillery agents who sell only products they manufacture out of tasting rooms was separated from liquor agents to acknowledge the differences between the business models. At that time, no changes were made to the formula. The legislatively adopted budget reflects a proposal crafted in 2020 in cooperation with distillery agents. It changes the distiller compensation formula to 45% commission on the first $250,000 in sales from all tasting rooms connected to a distiller and 17% for all sales over $250,000. If sales exceed budgeted projections, OLCC will request additional expenditure limitation to pay agents pursuant to the formulas in statute.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for Store Operating Expenses totals $166.9 million Other Funds, which remains unchanged from the legislatively adopted budget.

Recreational Marijuana Program Regulation

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	20,503,077	21,042,547	23,836,494	$24,591,056
Total Funds	**$20,503,077**	**$21,042,547**	**$23,836,494**	**$24,591,056**
Positions	69	68	80	80
FTE	68.29	68.00	79.25	79.25

Program Description
In November 2014, Oregon voters approved Ballot Measure 91 and OLCC was tasked with regulating the new recreational marijuana industry. This was a major change to OLCC's responsibilities 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 licensing to annual licensing and compliance for 2017-19, while evaluating 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 marijuana-related costs are not being subsidized by the alcohol program. OLCC allocates a portion of agency overhead (Administration and Support

program expenses) to marijuana programs based on FTE. For the 2021-23 biennium, the cost allocation formula is 26% of Administration and Support program personal services expenditures.

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. While it still educates in an effort to help licensees come into compliance with minor violations, OLCC has deepened its association with state and local partners in an effort to effectively regulate and monitor marijuana. At its most basic, jurisdictional responsibility can be summarized 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 (ODA) - commercial kitchens, scale certification, food handling activities, pesticides, and commercial hemp production.
- OLCC - licensing and inspection of producers, retailers, wholesalers, workers, and laboratories, and enforcement of violations by these licensees.

An emergent issue for OLCC is an increase in the number of illegal marijuana growing operations which purport to be hemp growing operations (treated like any other agricultural commodity under the law); it is nearly impossible to tell the difference between hemp and marijuana, which contains higher levels of THC, merely by looking, and the regulation of the products remain vastly different. The passage of HB 3000 in 2021 allowed OLCC and ODA to adopt rules on maximum THC concentrations, and allowed OLCC to regulate artificially derived cannabinoids, strengthened the ability of ODA to regulate hemp growers through criminal record checks and criteria for denial of licenses, and provided for other testing and enforcement requirements. In September 2021, OLCC reported that of 212 "hemp" locations inspected, 53.7% had illegal marijuana growing. This activity presents a threat to the legal market, with lower cost illegal operations competing with legal product, and also means illicit product is likely being shipped across state lines. Associated problems include illegal water diversion, employee abuses/trafficking, animal abuse, and increases in local crime. This situation will require further interagency cooperation at both the state and local level.

In response to the oversupply and the complexity of license renewals, SB 218 (2019) placed a 2-year moratorium on processing new producer licenses, with the exception of those applicants who applied prior to June 15, 2018. OLCC announced in September 2021 that it will recommend extending that moratorium for at least another two years based on the supply of legal product (equivalent to about three years' worth) and emergent issues seen in some regions of the state regarding illegal growing operations purporting to be industrial hemp farms.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the recreational marijuana program is $23.8 million and 80 positions (79.25 FTE). The budget includes adjustments to add eight permanent investigative positions and associated expenditure limitation of $3 million. The budget assumes the transfer of $487,897 to ODA to fund two limited duration positions in that agency's pesticide testing program. This amount is in addition to a permanent position responsible for coordinating cannabis policy with ODA, which was formalized via an interagency agreement first negotiated as part of the 2017-19 budget; this cost is $305,175 for the 2021-23 biennium. While cross-agency collaborations regarding cannabis are important for the health and safety of consumers and Oregonians generally, a transparent way of identifying and prioritizing partnerships of this type, and determining whether and how to fund existing collaborations and future proposals, is merited. To that end, a budget note was adopted directing the agency to inventory existing and anticipated regulatory efforts and services involving recreational and medical marijuana licensees that are delivered cooperatively through other state agencies but receive or request marijuana licensing revenue to fund costs. OLCC will report on this work to the Joint Committee on Ways and Means prior to the conclusion of the 2021-23 biennium.

The 2021-23 budget also reclassifies two positions to allow OLCC to utilize existing position authority to greater effect, and incorporates a permanent position approved by the 2020 Emergency Board to allow in-house Geographic Information Systems and mapping capabilities after OHA dis-continued its service contract with OLCC. Expenditure limitation associated with the passage of legislation included $346,147 and two permanent positions (1.50 FTE) for compliance and administrative duties associated with regulation of inhalant/vaping products pursuant to SB 96, and $399,007 and 1 permanent administrative specialist position (0.75 FTE) related to the passage of HB 3000.

Legislatively Approved Budget Update
The legislatively approved budget is a $754,562 increase from the 2021-23 legislatively adopted budget due to previously approved statewide adjustments to employee compensation.

Medical Marijuana Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	5,755,989	6,463,011	6,082,209	6,270,575
Total Funds	**$5,755,989**	**$6,463,011**	**$6,082,209**	**$6,270,575**
Positions	23	23	21	21
FTE	23.00	23.00	21.00	21.00

Program Description
The Medical Marijuana Program provides tracking of marijuana sales and production by OHA medical marijuana licensees with more than 12 plants or grow for more than two medical cardholders. Violations of laws, tracking requirements, and other rules discovered by OLCC are reported to OHA for enforcement.

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 February 2021 was 459. At the same time, there was one exclusive medical marijuana dispensary and no processors.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget for this program is $6.1 million, or 5.7%, increase from the 2019-21 legislatively approved budget.

Legislatively Approved Budget Update
The legislatively approved budget is a $188,366 increase from the 2021-23 legislatively adopted budget due to previously approved statewide adjustments to employee compensation.

Capital Improvements

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	377,943	237,745	237,745	$447,745
Total Funds	**$377,943**	**$237,745**	**$237,745**	**$447,745**

Program Description

The Capital Improvement program provides for stewardship of OLCC's buildings and grounds. OLCC owns its main office and distribution center complex in Milwaukie, as well as a second nearby warehouse acquired in 2007. OLCC has developed and routinely updates a 10-year facility maintenance plan, which is reflected in this program. Funding for Capital Improvements is derived through revenues from the sale of distilled spirits, license fees from alcohol and marijuana and penalties, privilege tax paid on the sales of beer and wine, and other miscellaneous sources.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for Capital Improvements totals $237,745 Other Funds, which is consistent with the program's 2021-23 current service level.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for capital improvements nearly doubled compared to the 2021-23 legislatively adopted budget. A sewer line to the agency's headquarters building, which dates from the 1950s, failed and required immediate replacement. Additional Other Funds expenditure limitation in the amount of $210,000 was approved during the 2022 regular session to address this health and safety issue.

Capital Construction

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	--	$62,537,265	$145,455,048
Total Funds	**--**	**--**	**$62,537,265**	**$145,455,048**

Budget Environment

Year over year sales growth, driven by population increases and retail store expansion, along with new responsibilities from cannabis regulation, has resulted in the current warehouse and central office facilities to be at or in excess of capacity, requiring substantial investments to maintain current levels of operation. Capacity limitations have the strong potential to affect revenues by limiting the possibility of new product listings and the ability to fulfill orders of retail liquor stores. The age of the facility requires significant structural and seismic improvements to protect employee health and safety and inventory. In addition, conveyor and supply chain systems will need to be integrated into a new building. OLCC estimated that as much as $1.5 billion in liquor sales revenue could be at risk over a period of ten years if the agency were to maintain its existing footprint.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget includes $52.5 million in Other Funds expenditure limitation from bond sales for the purchase of land and construction of a new warehouse and agency headquarters; $632,735 is budgeted for cost of issuance and $3.4 million for debt service in the Distilled Spirits program. The budget also includes an additional $10 million in expenditure limitation for bond-funded expenditures to acquire and install a new conveyor and order fulfillment system. The cost of issuance related to this equipment is $175,000, and debt service expenditures are budgeted at $896,730 in the Distilled Spirits program.

Completion of the facility is expected in the 2023-25 biennium. The new facility is assumed to provide for continued growth and profitability for at least the next 30 years. Debt service on these projects through the 2029-31 biennium is estimated at $85.2 million for the land and building bonds (a 30-year term), and $13.4 million for the conveyor and warehouse equipment. A budget note directs OLCC to report on the transition to a new headquarters and the disposition of its existing property. The report will include information on the zoning of the properties; submitted offers; real estate fees and commissions; conditions of sale; and listing price of the properties. OLCC must also provide the new warehouse and headquarters location; purchase price; construction and relocation schedule; interim operations plan; an overview of measures the agency will take to minimize disruption to licensees, contract liquor agents and other stakeholders; and a summary of efforts to secure financial systems and data during the transition.

Legislatively Approved Budget Update

During the 2022 regular session, approval was given for the issuance of additional bonds for OLCC's new warehouse and headquarters project and its conveyor and order fulfillment system. The approval reflects cost increases in labor, materials, and buildable acreage along the I-5 corridor. Cost estimates for a new warehouse and headquarters facility, an automated order fulfillment and conveyor system, and modernization of OLCC's information systems were originally developed in 2018. Since then, the supply of suitable land decreased, while labor and material shortages and inflation have resulted in funding shortfalls for the projects in 2021-23. Capital Construction expenditure limitation was increased by a total of $82.9 million to reflect the increased cost estimate, with $77.9 million of the increase attributable to the warehouse/headquarters facility, and $5 million associated with the conveyor and order fulfillment system.

PUBLIC EMPLOYEE RETIREMENT SYSTEM

Analyst: Borden

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	64,751,802	--	--	17,250,000
Lottery Funds	--	--	16,792,239	19,461,706
Other Funds	210,227,306	123,831,063	146,993,665	167,813,575
Other Funds (NL)	12,504,627,192	12,886,613,593	12,886,613,593	12,886,613,593
Total Funds	**12,779,606,300**	**13,010,444,656**	**13,050,399,497**	**13,091,138,874**
Positions	419	379	423	423
FTE	414.32	379.00	421.92	421.92

Overview

The Public Employees Retirement System (PERS) administers the retirement system for 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 entities.

PERS is responsible for most fiduciary activities performed on behalf of system members, including receipt of contributions into the retirement and deferred compensation trust funds, retirement counseling, benefit determination, and benefit payment. A separate entity, the Oregon Investment Council (OIC), with the assistance of the Investment Division of the State Treasury, oversees the investment of retirement system and deferred compensation trust fund assets, which are predominately managed by private investment firms. The five-member Public Employees Retirement Board has broad authority for operation of the system. Day-to-day operations are carried out by the Board-appointed director and agency staff. The agency's director is also an ex-officio non-voting member of OIC.

By statute, the Board formally adopts actuarial methods and assumptions every odd year for its contractual actuarial firm to use in calculating the value of benefits. These assumptions include: actuarial cost method; amortization periods; asset valuation method; contribution stabilization method (i.e., rate collaring); economic assumptions, including the [future] assumed earnings rate, inflation, and payroll growth; and demographic assumptions on retirement, disability, and mortality, to name a few. These assumptions determine the cost of liabilities associated with the accrued benefits. A statutory change in 2019 directs the PERS Board to report to the Legislature at least 30 days before the Board adopts changes to actuarial methods and assumptions.

The PERS Board establishes employer rates for approximately 900 employers. The rates vary by pension plan and for general service and police and fire employees as well as healthcare rates. Statute directs a fixed employee contribution, some of which are paid by employers, of 6% for non-judge members, which flows to the Individual Account Program and, depending on the member's monthly salary, the Employee Pension Stability Account, and 7% for statutory judgeship members. PERS employer contribution rates do not include debt service costs on pension obligation bonds.

Revenue Sources and Relationships

PERS revenue comes primarily from a combination of net (of investment expenses) investment earnings, employer contributions, employee contributions, health insurance premium payments, and dedicated revenue streams. In total, PERS expects to receive $15.7 billion in biennial Other Funds revenues, including investment earnings ($8.5 billion); contributions ($7.1 billion); insurance premiums ($69.1 million); and other revenues ($50.8

thousand). Notably, employer contributions are predominately funded by employer General Fund and to a lesser extent Lottery, Other, and Federal Funds, thus making PERS a de facto General Funded agency.

The PERS Health Insurance Program is funded via a combination of employer rates, earnings on the PERS Fund, insurance premiums paid by beneficiaries and passed through to the insurers, and subsidy payments from the Centers for Medicare and Medicaid Services. The Employer Programs (the Employer Incentive Fund (EIF), Unfunded Actuarial Liability (UAL) Resolution Program and School Districts Unfunded Liability Fund) may be funded by sports betting Lottery Funds, as well as excess revenues from debt collection, capital gains, estate taxes, interest on unclaimed property, and General Fund; however, Lottery Funds are only attributable to the EIF.

ORS 238.610 directs the administrative operations expenses for the agency 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 budget, are estimated to total $147 million and will be paid primarily from trust earnings. PERS' operating budget is funded primarily by recovering its administrative costs from the benefit trusts the agency administers.

The agency also receives limited charges for service for administering the Oregon Savings Growth Plan deferred compensation program, side accounts established by PERS employers, and Benefit Equalization Fund payments. There is also an administrative charge on the deferred compensation program (0.2% of participant assets held in the trust) and an administrative fee assessed on participants and employers for Social Security Administration activities (rate of 70 cents per employee per year, or $15, whichever is higher), plus nominal miscellaneous revenue.

Budget Environment

PERS is ranked as the second most complex retirement system in North America and, consequently, one of the costliest to administer. This complexity revolves around the number of pension plans (both open and closed), payout options, contributions required of members, the portion of member contributions redirected to fund pension costs, and legacy costs, to name a few.

A retiree's overall retirement income may include a PERS pension, a payout from a residual balance in an employee's Employee Pension Stability Account (in certain circumstances), a PERS Individual Account Program payment(s), and a federal Social Security benefit. A retiree's income could also include any voluntary deferred compensation contributions for which an employee may participate and other private retirement savings or resources. From 1990-2020, the average annual retirement benefit based on years of service equaled 52% of final average salary at the time of retirement. The average annual retirement benefit for all 2020 retirees equaled 44% of final average salary. For 2020 retirees with 30-years of eligible participation, the annual benefit amounted to 50% of final average salary, or $4,047; only 9.3% of 2020 retirees achieved 30 years of service. Also, only 1.5% of 2020 retirees received a benefit in excess of their final average salary, which is down from a high of 17.4% in 2002.

Approximately 95% of Oregon's public sector employees are PERS members. Public employers that do not participate in the PERS system must, every twelve years, meet an actuarial "equal to or better" standard for their police and fire employees, as compared to PERS benefits with 2022 being a review year. PERS has an estimated membership totaling 384,982 participants as of June 30, 2021. Of this number, 180,098 are active members, 48,389 are inactive members or those members who are no longer in PERS-covered employment, and 156,500 are retirees. PERS-eligible payroll is approximately $25 billion a biennium.

PERS is considered a mature system that currently has 1.16 active members for every annuitant or retired members and beneficiaries. By comparison, the National Association of State Retirement Administrator (NASRA) survey of public retirement funds has an average ratio of 1.35. The ratio of active members to annuitants may decline further as a significant portion of active members are eligible to retire.

PERS is a pre-funded retirement system with investment income providing approximately 74.2% of PERS' revenue since 1970 with the remaining revenue coming from employer contributions (21.5%) and member contributions (4.3%). PERS benefits and administrative costs are funded by investment earnings and employer contributions. To maintain equality, a change in one of these variables will necessitate a change in another. For example, if investment earnings fall below the assumed rate, then either employer contributions must increase, or benefits and expenses must fall. Conversely, an increase in investment earnings could result in a reduction to employer contribution rates.

The key objective of PERS is to fund long-term liabilities and maintain the solvency of the PERS system. "Long-term" is considered by PERS to match the 20-year amortization period for Tier 1/Tier 2 pension liabilities. The combined PERS pension system funding level, as of December 31, 2020, was $67.3 billion in assets and $95.3 billion in liabilities for a deficit of $28 billion; however, $5.1 billion in pre-paid employer contributions ("side accounts") reduce the deficit to $22.9 billion and a funded status of 76%. Approximately 71% of the UAL is attributable to members who are no longer in PERS-covered employment. The UAL is estimated to be 95% of PERS-eligible payroll for a biennium. With respect to funded status, PERS is at the median when compared to other systems in North America.

The PERS Board operates under broad administrative authority to adopt actuarial methods and assumptions and statute vests only the PERS Board with the authority to set the assumed earnings rate. Board-adopted changes directly impact the cost and financing of benefits and can increase or decrease the cost of projected benefit liabilities during a period when neither the Legislature nor voters change the structure of benefits. While projections are based on the assumed rate, results are calculated dependent on final earnings credited, which may be lower or higher than the assumed rate.

Since 1946, the PERS Board has made or proposed ten changes to the assumed earnings rate. Beginning in 2013, the PERS Board has lowered the assumed rate three times from 8% to eventually 7.2%. Beginning in calendar year 2022, the Board lowered the rate to 6.9%. These decreases are in line with results from the Horizon survey, as well as NASRA. The current median assumption for a large public system, according to NASRA, is 7%.

OIC is responsible for reviewing investment expenses as part of the investment selection process. Earnings are net of investment expenses, which include: (a) investment manager fees; (b) commissions and other fees; (c) investment consultants; and (d) State Treasury expenses. The earnings credited are calculated net of expenses and, as such, are not subject to legislative budgetary control (i.e., expenditure limitation). These expenses totaled $1 billion for Fiscal Year 2021 or approximately $2 billion a biennium.

The employer or employee contributions budgeted for PERS trusts are established through employer rates used to fund the Tier 1, Tier 2, Oregon Public Service Retirement Program (OPSRP), and PERS Health Insurance Programs benefits. The rates adopted by the Board decreased collared net pension rates from 22% of payroll for Tier 1 / Tier 2 in 2019-21 to 20.56% in 2021-23 and increased from 15.65% of payroll for OPSRP General Service in 2019-21 to 16.55% in 2021-23. Employer rates do not include costs for the Individual Account Program (IAP) or debt service costs for pension obligation bonds. Rates vary by employer based on factors including their employee demographics, their pre-funding any liability via side accounts, or their participation in a rate pool. If not for the UAL, the total contribution rate would be substantially lower.

The statewide average rate may also be reduced by the application of a rate collar methodology, which limits administratively the biennium to biennium change in employer contribution rates. Rate collaring eliminates the need for contingency funding as a tool to moderate employer rate increases. The PERS Board recently voted to revise the rate collar methodology. In 2017, the Legislature enacted SB 1067 which statutorily limited the maximum balance of the Contingency Reserve to $50 million resulting in the deployment of $533.7 million in reserves to various accounts thereby reducing the UAL.

Employers have the option to make voluntary lump-sum payments to PERS in addition to the employer's required contribution. With few exceptions (i.e., payment of transition liability), lump-sum payments are deposited into "side accounts," and are used to offset a portion of the contributing employer's PERS contribution rate on an amortized basis. Employers without a side account pay the employer contribution rate without any offset other than transition liability or surplus resulting from experience prior to joining the pool.

Employer side account assets are primarily from the proceeds of pension obligation bonds (POB). Notably, the Employer Incentive Fund established by the Legislature has had many employers budget for side accounts from their own funds rather than use POBs; however, POBs remain a common funding source for school districts. While some local jurisdictions continue to issue POBs, including community colleges and school districts, state government is not expected to make any additional issuances. The recent issuances of POBs merits monitoring their long-term financial viability given market uncertainties. In 2019, the Legislature also provided for enhanced review of local government POB issuances, as part of system reform efforts. Side accounts have a balance of $5.1 billion with the majority of side accounts depleted by 2027.

With further pension benefit reform options constrained by Supreme Court rulings, the Legislature in 2018 and 2019 turned to a series of initiatives to improve system financing with the primary focus being on incentivizing and funding lump-sum or "side account" contributions to the system. This included providing revenue, both ongoing and one-time, to match employer side account contributions as well as the establishment of a fund to create a pooled side account for the School District rate pool. This side account will not be created until funds capable of reducing the school district contribution rate by at least 1% exist.

The Legislature in 2018 established the Unfunded Actuarial Liability Resolution Program (UALRP) to assist an employer in the development of a plan to manage their contribution rate. The program is to assist employers 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 mandatory. PERS has enhanced the Employer Rate Projection Tool to aid employers in forecasting future contributions and created five "Guide to Understanding" reference documents explaining rates, pooling, valuation, financial modeling and understanding an employer's UAL. In addition, PERS is now able to disaggregate the UAL by agency.

A common misperception about PERS is that enhanced benefits are driving cost, when in fact, benefits have been reduced pursuant to legislative reforms. From 2004 to 2019, such reforms have been effective in reducing PERS benefits or providing new funding sources for benefits; however, employer costs will continue to rise to pay the legacy costs of retirees and active and inactive members, as well as offset lower assumed investment assumptions. Options for further reform, while possible, are constrained by the effectiveness of prior benefit reforms, Supreme Court rulings allowing only prospective benefit reform, the current investment environment (i.e., lower returns, high equity valuations, and low interest rates), and bonding capacity related to the issuance of POBs.

Future reforms could disproportionately impact the retirement of employees whose pension benefits have yet-to-be earned. Of note is that 66% of the UAL is attributed to members who already retired while 59% of normal costs, or projected benefits for current members, is attributed to OPSRP members who account for just 9% of the UAL. The PERS Board's costing of benefit liabilities coupled with investment return volatility are the actual drivers of pension costs along with Oregon Supreme Court rulings on legislative reforms. For example, in July 2021, the PERS Board recently voted to lower the assumed earnings rate to 6.9% beginning with the 2023-25 biennium. This action alone will add $3 billion to the pension system's unfunded liability, absent any concurrent enhancement in pension benefits.

<u>Legislatively Adopted Budget</u>
The legislatively adopted budget for PERS totals $13.1 billion Other Funds and $16.8 million Lottery Funds and includes 423 positions (421.92 FTE). The budget is $270.8 million (or 2.1%) more than the 2019-21 legislatively approved budget. Of the Other Funds total, $12.9 billion is for benefit payments to retirees and the remainder for

agency operations. The agency's operating budget is a net $63.2 million (or 30.1%) less than the 2019-21 legislatively approved budget due primarily to the elimination of one-time support for 25% matching funds for eligible employer lump sum payments through the Employer Incentive Fund program. The single largest increase in the operating budget totals $22.8 million and 35 positions for the continued implementation reform measures required by SB 1049 (2019).

For the first time, the budget includes Lottery Funds (sports betting revenue) for the Employer Incentive Fund, which will be used for the 25% state match program for employer side accounts ($16.8 million). The budget also includes continued funding for cybersecurity, disaster recovery, business continuity, and the agency's move to the State Data Center ($1.9 million and one position/0.88 FTE). Also included are eight new operational staff across various divisions ($1.2 million), as well as funding for deferred maintenance on the agency's headquarters building ($425,000) and the planning phase to modernize the agency's core retirement application ($800,000).

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for PERS totals $13.1 billion and includes 423 positions (421.92 FTE). The budget is $40.7 million, or 0.3%, more than the 2021-23 legislatively adopted budget. Major investments include $17.3 million General Fund, $17.5 million Other Funds, and $2.7 million Lottery Funds (sports betting revenue) to meet the state's 25% match for the Employer Incentive Fund.

Tiers One and Two Pension Plans and Statutory Judgeships

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	10,272,591,713	11,105,880,836	11,105,880,836	11,105,880,836
Total Funds	**10,272,591,713**	**11,105,880,836**	**11,105,880,836**	**11,105,880,836**

Program Description
The Tier 1 and Tier 2 and Statutory Judgeship program accounts for employee and employer contributions, earnings, and pension payments related to these plans. Tier 1 covers members hired before January 1, 1996, while Tier 2 covers members hired between January 1, 1996 and August 28, 2003, with Tier 2 providing a slightly higher normal retirement age and less generous benefits. Public employees hired after August 28, 2003 are members of the Oregon Public Service Retirement Plan (OPSRP).

Unlike OPSRP, which is a single statewide pooled plan for all employer groups, Tier 1 and Tier 2 are comprised of rate pools for voluntary participation by state and local governments and mandatory participation by school districts and educational service districts. Independent employers are local government that have chosen to be outside a rate pool. The UALs for Tier 1 and Tier 2 are amortized over 20-years and the UAL for OPSRP is amortized over 16 years.

Revenue Sources and Relationships
Other Funds revenue is mainly from employer contributions ($2.3 billion) and retirement trust fund investment earnings (about $6.5 billion annually). A nominal amount of revenue comes from employee contributions by employees, primarily judge members; however, judge member contributions are paid by the state. Employer contribution rates are established by the PERS Board based upon advice from its consulting actuary. The program's administrative costs are budgeted under various operational programs and supported by revenue transfers to those programs.

Tier One member regular accounts were credited for the calendar year 2020 assumed earnings rate of 7.2%. When market earnings have been less than the assumed earnings rate, a reserve balance has been used to make up the difference. Tier Two account earnings are based on actual market returns as produced by the OIC. Tier Two regular member accounts received earnings crediting of 20.14% in calendar year 2021. If earnings are insufficient to pay for administrative expenses, then those expenses come from OPERF earnings (OAR 459-007-0005). Such costs are not recouped in future years when Variable Account earnings exceed expenses.

Budget Environment

Tier One has 153,017 members as of June 30, 2021. This includes 13,991 active, 9,103 inactive, and 129,923 retired members and beneficiaries. The average age for Tier 1 is 73.2 years and the average monthly benefit is $2,573. Tier Two has a total of 61,176 members as of June 30, 2021. This includes 29,322 active, 13,498 inactive, and 18,356 retired members and beneficiaries. The average age for Tier 2 is 68.4 years and the average monthly benefit is $1,106.

Tier 1 and Tier 2 has a combined actuarial accrued liability of $85.3 billion and actuarial value of assets of $59.7 billion, leaving an unfunded accrued liability of $25.6 billion (70.0% funded) as of the December 31, 2020 valuation; however, these figures exclude $5.1 billion in pre-paid employer contributions or side accounts. By including side accounts, the funded status improves to 80.1%. Tier 1 and 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.

Legislatively Adopted Budget

The division's legislatively adopted budget totals $11.1 billion Other Funds Nonlimited, which is $833.3 million, or 8.1%, more than the 2019-21 legislatively approved budget and is set at a level expected to cover projected benefit payments.

Legislatively Approved Budget Update

The legislatively approved budget for the division remains unchanged from the 2021-23 legislatively adopted budget.

Employer Resolution Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	64,751,802	--	--	17,250,000
Lottery Funds	--	--	16,792,239	19,461,706
Other Funds	64,751,802	--	2	17,250,001
Total Funds	**129,503,604**	**--**	**16,792,241**	**53,961,707**

Program Description

The Legislature in 2018 established the Unfunded Actuarial Liability Resolution Program (UALRP) to assist employers in managing their projected employer rate changes. Employer participation in the program is mandatory. The PERS Board set, by administrative rule, the minimum requirements for an employer plan, and provides technical expertise in the development of the plan upon request. Program expenses are authorized to be paid from the Employer Incentive Fund.

Lump-sum payments, or side accounts, are used to offset a portion of the contributing employer's PERS contribution rate according to an amortization schedule which is typically 20 years. Employers making a payment from un-borrowed funds of $10 million or more may select an amortization period of six, 10, 16, or 20 years, they might also choose to defer their offset for several years pausing any amortization until the future rate offset date. Side account balances are never entirely utilized in a single biennium. Employers without a side account pay the employer contribution rate without any offset. Side accounts, are tracked separately from other employer reserves in the Oregon Public Employees Retirement Fund, are assets of the PERS system, and reduce a participating individual employer's net unfunded pension actuarial accrued liability. Once deposits are made into side accounts, employers are unable to withdraw or repurpose the funds. Employees have no vested interest in side accounts as they are an asset of a participating employer not employee. The state also has no ability to access (or re-appropriate) side account balances, as they are held in statutory trust accounts.

SB 1566 (2018) established the School Districts Unfunded Liability Fund (SDULF). The PERS Board plans to transfer available funds into a school districts pooled side account when those funds provide a rate offset for the entirety of the pool, at which time the state would relinquish financial interest in the funds. The 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. PERS has estimated the SDULF would require a $560 million balance to create the pooled side account and provide a 1% reduction in school district pool employer rates; revenue to reach this threshold is again not anticipated during the 2021-23 biennium as was the case during the 2019-21 biennium.

SB 1566 also established an Employer Incentive Fund (EIF) to be used to provide up to a 25% match for employer side accounts, which are for pre-paid employer contributions held in trust by PERS. Once deposited, side account funds may not be withdrawn except for the payment of employer contributions. All PERS entities, including school districts, community colleges, and public universities, are eligible to participate in the matching funds program subject to providing a minimum cash contribution of $25,000 and participating in the Unfunded Actuarial Liability Resolution Program. The fund was capitalized with a one-time General Fund appropriation and, on an ongoing basis, with proceeds from sports betting Lottery Funds. SB 1566 allows entities that make a $10 million or more lump-sum cash payment into a side account to choose an amortization period of six, 10, 16, or 20 years. SB 1049 elaborated on this rule to allow such employers to defer their rate offset several years after the employer made the payment.

Revenue Sources and Relationships
SDULF was to be capitalized with an estimated $115 million in one-time funding identified in SB 1529 (2018). Additional revenue transfers that may become available include excess revenues from debt collection, capital gains, estate taxes, and interest on unclaimed property. The SB 1529 or tax repatriation revenue estimate was redirected to the General Fund during the second 2020 special session based on actions to rebalance the state budget. The Department of Administrative Services reports that transfers related to excess debt collection, capital gains, and estate taxes are not expected in the current biennium. In both 2019 and 2020, SDULF received $32.9 million in transfers from the Department of State Lands from interest on unclaimed property; of this amount all but $369,751 in interest earnings were redirected to the General Fund based on actions during the second 2020 special session to rebalance the state budget.

EIF was to be capitalized with an estimated $25 million in one-time funding from SB 1529 (2018). As noted previously, the SB 1529 or tax repatriation revenue estimate was redirected to the General to rebalance the state budget in 2019-21. The EIF also received a $100 million General Fund appropriation in SB 1049 (2019), $35.3 million of which was later disappropriated during the second 2020 special session in SB 5723.

Budget Environment
Side account contributions increase assets, in comparison to liabilities as a result reducing the UAL, which improves the funded status of PERS. Since the passage of 1566 (2018) and SB 1049 (2019), over $549.2 million in side account assets have been added to the PERS system based on 89 employers participating in the program. The program may continue pending additional state matching funds becoming available. At the end of the inaugural EIF cycle, 44 employers with $148 million in employer contributions were on a waitlist pending state matching funds. Of these employers, 12 opted to make payments without the guarantee of matching funds resulting in additional $64.1 million in lump sum payments.

Legislatively Adopted Budget
The legislatively adopted budget for Employer Resolution Programs is $16.8 million, which is $112.7 million, or 87%, less than the 2019-21 legislatively approved budget. The decrease is due to the elimination of one-time

General Fund and corresponding Other Funds expenditure limitation. The budget includes $16.8 million Lottery Funds for the EIF with the corresponding employer match being indeterminate at the time the budget was adopted.

Legislatively Approved Budget Update
The 2021-23 legislatively approved budget for the division totals $54 million, which is $37.2 million, or 221%, more than the 2021-23 legislatively adopted budget. Major investments include $17.3 million General Fund, $17.5 million Other Funds, and $2.7 million Lottery Funds (sports betting revenue) to meet the state's 25% matching funds requirement for the EIF.

Oregon Public Service Retirement Pension Plan

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	75,188,960	109,636,842	109,636,842	109,636,842
Total Funds	**75,188,960**	**109,636,842**	**109,636,842**	**109,636,842**

Program Description
The Oregon Public Service Retirement Pension (OPSRP) program serves public employees who began public employment after August 28, 2003. The OPSRP pension program is funded solely by employer contributions and investment earnings. The plan has a higher retirement age and less generous benefits than the Tier 1 and Tier 2 programs. Unlike Tier 1 and Tier 2 plans, OPSRP is a single statewide pooled plan for all employer groups. The OPSRP UAL is amortized over 16-years, which is four years less in duration than that of Tier 1 and Tier 2 pension plans.

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 PERS Board based upon advice from its consulting actuary. 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 20.43% for 2020. The program's administrative costs are budgeted under various operational programs and are supported by revenue transfers from this program to those programs.

Budget Environment
OPSRP has a total of 170,445 members as of June 30, 2021, which includes 136,785 active, 25,783 inactive, and 7,877 retired members and beneficiaries. Program growth continues to be significant as OPSRP is the only open PERS retirement plan for new employees. OPSRP now has more members than the Tier 1 or Tier 2 plans combined.

OPSRP has an actuarial accrued liability of $10 billion and actuarial value of assets of $7.5 billion, leaving an unfunded accrued liability of $2.5 billion (75% funded) as of the December 31, 2020 valuation. OPSRP revenue totaled $861.9 million for employer contributions and investment earnings totaled $162.1 million. During this period, OPSRP paid out $56.8 million in benefits and administrative expense.

Legislatively Adopted Budget
OPSRP's legislatively adopted budget totals $109.6 million Other Funds Nonlimited, which is $34.5 million, or 45.8%, more than the 2019-21 legislatively approved budget and is set at a level expected to cover projected benefit payments.

Legislatively Approved Budget Update
The legislatively approved budget for the division is unchanged from the 2021-23 legislatively adopted budget.

Individual Account Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	1,423,365,167	1,298,603,848	1,298,603,848	1,298,603,848
Total Funds	**1,423,365,167**	**1,298,603,848**	**1,298,603,848**	**1,298,603,848**

Program Description

The Individual Account Program (IAP) is the defined contribution component of the PERS retirement plan and is funded by member contributions. The IAP was instituted as part of PERS reform legislation passed during the 2003 legislative session. Prior to 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, which was also a requirement for OPSRP members. As originally conceived, the IAP was estimated to pay approximately 15-20% of retiree's final average salary (for a 30-year career) based on the assumed earnings rate at the time the program was created (8%). The assumed rate has since been lowered and is now 6.9%.

Prior to 2020, statute required PERS members to contribute an amount equal to 6% of eligible salary to an IAP account. Based on reforms enacted in SB 1049 (2019) and subsequently modified by HB 2906 (2021), Tier 1 and Tier 2 members contribute 3.5% of salary to their IAP accounts and OPSRP members contribute 5.25% to IAP accounts, with the balance of the 6% contributed to each employee's Employee Pension Stability Account. The redirected contribution is used to partially and prospectively fund an employee's defined benefit or pension plan. The redirect of member contributions occurs only if the PERS funded status is less than 90% funded and an employee's earnings are more than $3,333 per month, or approximately $40,000 per year with annual adjustments for inflation. Redirected funds lower the employer contribution resulting in employer savings. Employees can voluntarily contribute into their IAP account the amount of redirected funds on an after-tax basis.

At retirement, members will receive the balance of their IAP account and accrued earnings as well as any Employee Pension Stability Account residual balance. IAP accounts are invested by OIC in a series of Target Date Fund vintages that adjust the assets and riskiness of each member's IAP based on their age or, by member choice, may be invested in an alternative age-based target fund. At retirement, IAP dollars are paid in either a lump-sum payment or in equal installments over five, 10, 15, or 20 years, or over the member's expected lifetime. IAP payouts may also be transferred to Oregon Savings Growth Plan accounts, or any other qualified plan, upon withdrawal or retirement. The program's administrative costs are budgeted under various operational programs and are supported by revenue transfers to those programs. The cost of a third-party administrator contract totals $4.6 million.

Revenue Sources and Relationships

If the PERS funded status is less than 90% funded including side accounts, and an employee's earnings are more than $3,333 per month or approximately $40,000 per year, the IAP requires Tier 1 and Tier 2 members contribute 3.5% of salary to their IAP accounts, and OPSRP members contribute 5.25% to IAP accounts with the balance of the 6% being contributed to each employee's Employee Pension Stability Account. If less than $3,333 per month, the member contributes a full 6% to the IAP. Some employers "pick-up" or pay the 6% employee contribution based on collective bargaining contracts. While historically the "pick-up" was in lieu of a salary increase, some 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 OIC. Member accounts earnings crediting occurs once each calendar year based on the Target Date Fund the member is in. Returns varied between 13.89% and 18.36%.

Budget Environment

As of December 31, 2020, the total value of all IAP accounts was $11.2 billion comprising 292,983 active IAP accounts with an average account balance of $38,330 and over 17,633 accountholders receiving a payment. After the close of the legislative session in 2017, the OIC voted to move the IAP to a target date fund solution beginning January 2, 2018 with the investments being managed by both OIC and other fund managers. 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.

Legislatively Adopted Budget

The IAP legislatively adopted budget totals $1.3 billion Other Funds Nonlimited, which is $124.8 million, or 8.8%, less than the 2019-21 legislatively approved budget. The budget is set at a level expected to cover projected retirement system benefit payments.

Legislatively Approved Budget Update

The legislatively approved budget for IAP is unchanged from the 2021-23 legislatively adopted budget.

Retirement Health Insurance Programs

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds (NL)	733,481,352	372,492,067	372,492,067	372,492,067
Total Funds	**733,481,352**	**372,492,067**	**372,492,067**	**372,492,067**

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, 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. These plans are permitted under 401(h) plans under Internal Revenue Service code.

The PERS Retiree Health Insurance program is available for Tier One and Tier Two retirees 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, and member payments. These 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 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 Medicare. 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's administrative costs are budgeted under the Operations Division and supported by revenue transfers to those programs. RHIA and RHIPA revenues totaled $42.8 million for employer contributions and investment earnings totaled $82 million.

Budget Environment

Overall, the program covers 56,161 individuals, with 46,024 retirees (or surviving spouses) and 10,177 spouses or dependents. RHIA has 42,948 retired members receiving benefits and RHIPA has 685. The RHIA funding level, as of December 31, 2020, was $660 million in assets and $384 million in liabilities for a surplus of $277 million and funded status of 172%. RHIPA has $64 million in assets and $48 million in liabilities for a funded status of 133%. The PERS Board adopted a new amortization policy for these programs when they are 100% funded that amortizes the actuarial surplus over Tier 1/Tier 2 payroll using a rolling 20-year (instead of 10-year) amortization and allows the subsequent negative UAL rate to offset the normal cost.

Legislatively Adopted Budget

The legislatively adopted budget for Retirement Health Insurance Programs totals $372.5 million Other Funds Nonlimited, which is $361 million, or 49.2%, less than the 2019-21 legislatively approved budget. The budget is set at a level expected to cover projected retirement system benefit payments.

Legislatively Approved Budget Update

The legislatively approved budget is unchanged from the 2021-23 legislatively adopted budget.

Central Administration Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	5,958,740	17,964,692	18,179,492	18,629,604
Total Funds	**5,958,740**	**17,964,692**	**18,179,492**	**18,629,604**
Positions	21	51	51	51
FTE	20.92	51.00	51.00	51.00

Program Description

Central Administration, in conjunction with the PERS Board, provides the central direction, planning, and leadership for PERS. The division is comprised of agency leadership positions, including the director, deputy director, and senior policy advisor, as well as the Strategic and Operational Planning, Communications, Human Resources, Procurement, and Facilities and Logistics sections.

Revenue Sources and Relationships

ORS 238.610 directs the administrative operations expenses for the agency 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

Agency governance and management have entered a period of stability after turnovers with agency leadership and key management staff, as well as the Board Chair and Board member positions. PERS headquarters is a state-owned facility located in Tigard, Oregon, and requires periodic deferred maintenance investments.

Legislatively Adopted Budget

The legislatively adopted budget for the Central Administration Division totals $18.2 million Other Funds, which is $12.2 million, or 205%, more than the 2019-21 legislatively approved budget and includes 51 positions (51.00 FTE). The budget increase is due to the transfer of select administrative sections from various divisions to Central

Administration that occurred as part of the current service level budget. The budget also includes a one-time increase of $425,000 for the following maintenance projects: roof recoating ($60,000), skylight replacement ($15,000), construction of a gender-neutral bathroom ($50,000), and parking lot repair and repaving ($300,000)

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $18.6 million, which is $450,112, or 2.5%, more than the 2021-23 legislatively adopted budget. The budget includes 51 positions (51.00 FTE), which is unchanged from the adopted budget.

Financial and Administrative Services Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	33,896,372	25,584,480	22,203,677	22,641,148
Total Funds	**33,896,372**	**25,584,480**	**22,203,677**	**22,641,148**
Positions	64	34	35	35
FTE	63.52	34.00	35.00	35.00

Program Description

The Financial and Administrative Services Division (FASD) is comprised of the following sections: Financial Reporting; Actuarial Services; Accounting and Cash Transactions; Budget, Fiscal Analysis and Payroll. The division 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, and health insurance programs. Other activities include preparation, maintenance, and reporting of the agency's biennial budget, coordination of actuarial services, fiscal analysis, and accounts receivable and payable.

Revenue Sources and Relationships

ORS 238.610 directs the administrative operations expenses for the agency 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

PERS contracts with a firm to benchmark the agency's benefit administrative efficiency against peer retirement systems. According to the most recent study (2020), PERS has the second highest complexity scores in North America. High complexity can negatively impact service, front office productivity, and back-office costs. The study further notes that PERS had a pension administration cost of $163 per active member and an annuitant cost that was $53 above the peer average of $110. The reasons are lower transactions per full-time equivalent position and higher costs for back-office activities, primarily information technology. PERS had a relative complexity score of 55.6, which was the second highest in the database; the peer mean was 41.7.

Legislatively Adopted Budget

The legislatively adopted budget for the Financial and Administrative Services Division totals $22.2 million Other Funds, which is $11.7 million, or 34.5%, less than the 2019-21 legislatively approved budget and includes 35 positions (35.00 FTE). The budget decrease is due to the transfer of select administrative program to the Central Administrative and Operations Divisions. The budget also includes the following:

- $295,563 Other Funds decrease to reflect the statewide consolidation of Microsoft 365 licensing within Enterprise Information Services.
- $180,819 Other Funds increase on a one-time basis and one limited duration Accounting Technician 3 position (1.00 FTE) to manage a long-term overpayment collection program related to the Oregon Supreme Court's Strunk and Eugene cases.

- $40,039 Other Funds increase for the reclassification of an Actuarial Services Coordinator position to an Associate Actuary position to manage the Actuarial Services Unit.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $22.6 million, which is $437,471, or 2%, more than the 2021-23 legislatively adopted budget. The budget includes 35 positions (35.00 FTE), which is unchanged from the adopted budget.

Information Services Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	26,847,924	28,499,389	29,435,379	30,200,665
Total Funds	**26,847,924**	**28,499,389**	**29,435,379**	**30,200,665**
Positions	70	77	78	78
FTE	69.76	77.00	77.88	77.88

Program Description
The Information Services Division (ISD) is comprised of the following sections: Enterprise Applications; Enterprise Content Management; Technical Operations; and Support Administration. The division provides technical support to all agency divisions. 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' 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.

Revenue Sources and Relationships
ORS 238.610 directs the administrative operations expenses for the agency 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
ISD operates in a complex and demanding information technology environment. The core systems used by PERS include the Oregon Retirement Information On-Line Network (ORION) developed in 2004, and JClarety, which was developed in 2005. Utilizing these systems and a host of ancillary applications, PERS manages the retirement accounts of all members while processing payments to over 160,000 retirees each month.

Currently, PERS is working on a project to migrate the PERS Data Center from Headquarters in Tigard to the Department of Administrative Services - State Data Center (SDC) under a co-location model. After this project is completed, the data center in Tigard will be decommissioned and the new environment will consist of 250 Windows Servers. In addition, PERS is working to implement a Disaster Recovery warm site that will reside in the cloud at the Azure Government data center located in Arizona. Meanwhile, PERS recently completed three of the five projects under SB 1049 (2019). The two remaining projects (IAP Member Redirect and Work After Retirement) will continue in the current biennium. Lastly, PERS has begun evaluating the modernization of ORION by focusing on architecture and planning.

Legislatively Adopted Budget
The legislatively adopted budget for the Information Services Division totals $29.4 million Other Funds, which is $2.6 million, or 9.6%, more than the 2019-21 legislatively approved budget and includes 78 positions (77.88 FTE). The budget includes funding for three information technology related packages:

- $825,000 in one-time Other Funds to complete the Production Data Center migration to the Department of Administrative Services - State Data Center.
- $86,227 Other Funds and one permanent full-time Information Services Specialist 8 position (0.88 FTE) and the transfer $194,704 of information security-related services and supplies funding to the Compliance, Audit and Risk Division. The position would serve as a Senior Systems Administrator to manage the agency's disaster recovery warm-site, data backup infrastructure, and related activities
- $17,033 Other Funds for the reclassification of a permanent full-time Information Services Specialist 5 to an Information Services Specialist 8, due to an increase in responsibilities of the position.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $30.2 million, which is $756,286, or 2.6%, more than the 2021-23 legislatively adopted budget. The budget includes 78 positions (77.88 FTE), which is unchanged from the adopted budget.

Operations Division

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
Other Funds	40,948,892	42,993,318	43,985,040	45,324,157
Total Funds	**40,948,892**	**42,993,318**	**43,985,040**	**45,324,157**
Positions	207	196	203	203
FTE	206.52	196.00	202.16	202.16

Program Description
The Operations Division is comprised of the following sections: Benefit Preparation; Member Services; Data Services; Benefit Calculations; PERS Health Insurance Plan; Oregon Savings Growth Plan; and State Social Security Program. The current structure results from an agency-requested reorganization plan involving the former Benefits, Customer Service, and parts of the Policy, Planning and Communications Divisions member and employer facing sections.

The Benefit Preparation Section has a Specialty Calculations and Intake and Processing section, and is responsible for processing all incoming benefit applications and related documents, establishing disability and death benefits, and administering divorce decrees. The Specialty Calculations area calculates retirements as well as benefit estimates, purchases, and IAP disbursements. Member Services directly interfaces with members by answering queries from the Online Member Services internet tool, an in-house phone team, and in-person through group and individual counseling and planning sessions and provision of member account statements. Data Services houses the Employer Service Center while the Member Account Adjustment Team and Data Integrity Group enrolls and manages member data and accounts and handles employer reporting, training, outreach, and communication including the annual reconciliation process.

PERS also administers the *voluntary* deferred compensation plan for state and local governments entitled the Oregon Savings Growth Plan (OSGP). State agencies offer the OSGP, as well as approximately 322 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.
There is no state funding associated with the OSGP or guarantees of underlying investments or investment returns. OIC establishes a program for the investment of OSGP funds. Deposits are invested through State Treasury and administered by a private third-party administrator (Voya Financial). In total, the OSGP has assets of

$3.2 billion and 34,917 total participants (30,029 are state employees), as of June 30, 2021, with an average account balance of $92,342 per participant. There are 20,755 participants who are active contributors to the plan with an average monthly contribution of $516. PERS costs to administer the program are budgeted under the Operations Division with revenue coming from gross OSGP revenues and earnings. Contributions to and benefits and refunds from the OSGP are not subject to state budgetary control.

Revenue Sources and Relationships
ORS 238.610 directs the administrative operations expenses for the agency 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 2020, the Operations Division processed approximately 13,500 employer reports containing 3.5 million member records. The Member Information Center handled 180,941 incoming member phone calls and 23,302 incoming member emails. The Employer Service Center handled 14,913 incoming employer phone calls and 143,259 employer emails. The division conducted 3,228 retirement education presentations and 3,069 retirement application assistance sessions. For the State Social Security Program, there were no referendums in 2021. For the year 2021, there is one pending referendum with 215 Employer contacts.

Legislatively Adopted Budget
The division's 2021-23 legislatively adopted budget totals $44 million Other Funds, which is $3 million, or 9.6%, more than the 2019-21 legislatively approved budget and includes 203 positions (202.16 FTE). The budget includes:
- $436,606 Other Funds in one-time funding, one limited duration Retirement Counselor 1 (0.88 FTE), and two limited duration Retirement Counselor 2 positions (1.76 FTE) to augment Data Services to address qualifying/non-qualifying employment eligibility issues.
- $287,661 Other Funds, one permanent full-time Retirement Counselor 2 (0.88 FTE), and one permanent full-time Administrative Specialist 1 (0.88 FTE) to increase retirement application assistance.
- $278,924 Other Funds and two permanent full-time Retirement Counselor 1 positions (1.76 FTE) to address the increased workload around death benefit payments.

Legislatively Approved Budget Update
The legislatively approved budget for the division totals $45.3 million. The budget is $1.3 million, or 3%, more than the 2021-23 legislatively adopted budget. The budget includes 203 positions (202.16 FTE), which is unchanged from the adopted budget.

Compliance, Audit, and Risk Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	8,789,679	8,789,184	9,575,278	9,800,788
Total Funds	**8,789,679**	**8,789,184**	**9,575,278**	**9,800,788**
Positions	20	21	21	21
FTE	20.00	21.00	21.00	21.00

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 is also responsible for enterprise risk management, information security, and internal audit services. In addition, the division supports the PERS Board's Audit Committee. The division is comprised of four sections: Internal Audit; Policy Analysis and Compliance; State Social Security

Program; and Security and Risk Management, which is a recently formed section that has been in the process of standing up a Cybersecurity, Business Continuity, and Disaster Recovery program for the agency.

Revenue Sources and Relationships

ORS 238.610 directs the administrative operations expenses for the agency 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 per biennium.

Budget Environment

PERS, by statute, prepares an Annual Comprehensive Financial Report. PERS is also audited annually by an external audit firm hired by the Secretary of State's Audits Division. Over the last five fiscal years, the Internal Audit Section issued an average of 6.4 reports a year with an average of 29.3 recommendations. For fiscal year 2020, the section issued eight reports with 65 recommendations. During the prior four calendar years, the Policy Analysis and Compliance Section averaged 189.3 appeals and 37.3 contested cases per year. For calendar year 2020, the section had 253 appeals and 42 contested cases.

Information technology challenges involving cybersecurity, business continuity, and disaster recovery have been of significant concern. In 2017, the Legislature provided direction and funding to PERS to resolve the deficiencies. PERS now reports being on track to remedy the various deficiencies and legislative direction during the 2021-23 biennium.

Legislatively Adopted Budget

The Compliance, Risk, and Audit Division's legislatively adopted budget totals $9.6 million Other Funds, which is $785,599, or 8.9%, more than the 2019-21 legislatively approved budget and includes 21 positions (21.00 FTE). The budget includes:

- $854,504 Other Funds for the final major investment in the agency's Cyber Security, Business Continuity, and Disaster Recover programs.
- $194,704 Other Funds due to a transfer of information security-related services and supplies funding from the Information Services Division.

Legislatively Approved Budget Update

The division's legislatively approved budget totals $9.8 million, which is $225,510, or 2.4%, more than the 2021-23 legislatively adopted budget. The budget includes 21 positions (21.00 FTE), which is unchanged from the adopted budget.

Core Retirement System

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	29,033,897	--	23,614,797	23,967,212
Total Funds	**29,033,897**	**--**	**23,614,797**	**23,967,212**
Positions	37	--	35	35
FTE	33.60	--	34.88	34.88

Program Description

The Core Retirement Systems Applications Division was established to budget all project-related costs related to PERS' implementation of SB 1049 (2019), as well as any large-scale information technology modernization initiatives. SB 1049 addresses future PERS employer contribution rate increases by reducing system-wide collared employer contribution rates by 5.43% and employer contributions by between $1.2 to $1.8 billion per biennium beginning in 2021-23. To achieve these savings, the measure made the following reforms:

- Re-amortizes on a one-time basis Tier 1 and Tier 2 Unfunded Actuarial Labilities 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 $3,333 per month or approximately $40,000 per year. Redirected funds will lower or offset the employer contribution resulting in employer savings. 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 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 must continue making 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.

Revenue Sources and Relationships

ORS 238.610 directs the administrative operations expenses for the agency 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 has fully funded the program, including a contract with project management firms and various information technology vendors. The Department of Administrative Services Office of Chief Information Officer and Chief Financial Office are providing technical expertise, oversight, and financial management guidance to PERS. The Department of Administrative Services is also providing technical expertise related to procurement, human resources, and facilities management. Independent Quality Assurance has been onboarded to provide additional oversight and quality control reports.

PERS was provided $39 million in funding in 2019-21 to complete implementation of SB 1049 with all work to be completed by July 1, 2021. While significant work was completed, only the Salary Limit Project was completed prior to the legislatively requested July 1, 2021 due date. Employer Programs was not completed until July 17, 2021 and Member Choice was not completed until August 4, 2021. In addition, a key interface for Work After Retirement was missed, which pushed its implementation into January of 2022, and significant scope changes in Member Redirect pushed its completion date into the 2023-25 biennium.

While PERS expenditures for the 2019-21 budget remained within its approved budget, PERS requested $27 million during the 2021 regular session to: 1) complete the Member Redirect work; 2) correct the missing interface required for the Work After Retirement effort; and 3) address the financial requirements for a newly identified Technical Debt Project directly related to SB 1049.

Legislatively Adopted Budget

The Core Retirement System's legislatively adopted budget totals $23.6 million Other Funds, which is all one-time funding, and includes 35 positions (34.88 FTE). The budget includes:

- $22.8 million Other Funds and 35 limited duration positions (34.88 FTE) to continue the Member Redirect and Work After Retirement projects needed to implement SB 1049 (2019). The Work After Retirement project is expected to be completed by February 2022 and the Member Redirect project is expected to be completed by February of 2024. A budget note directs reporting to the Legislature in 2022.

- $800,000 Other Funds to begin planning for a project to modernize the Oregon Retirement Online Network. The origination phase of this project consists of contracting for planning and system assessment activities only.

Legislatively Approved Budget Update

The legislatively approved budget for the division totals $24 million, which is $352,415, or 1.5%, more than the 2021-23 legislatively adopted budget. The budget includes 35 positions (34.88 FTE), which is unchanged from the adopted budget.

RACING COMMISSION

Analyst: Ruef

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	6,329,944	6,901,392	7,351,396	7,523,592
Total Funds	**$6,329,944**	**$6,907,392**	**$7,351,396**	**$7,523,592**
Positions	14	14	14	15
FTE	10.40	10.40	10.39	10.64

Overview

The Oregon Racing Commission regulates all aspects of the pari-mutuel horseracing industry in Oregon. Pari-mutual is the term for a system of cooperative betting in which the winning returns are determined by a common pool of the total amount wagered. The five-member Commission is appointed by the Governor and charged with setting policy, approving race meet licenses and dates, and acting in a quasi-judicial capacity for appeals, referrals from stewards' hearing orders, and other matters involving alleged violations of racing statutes and rules.

The Commission oversees horseracing at five county fair race sites: Union, Grants Pass, Prineville, Tillamook, and Burns. The Commission also regulates off-site simulcast races and Multi-Jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs), which are internet-based wagering companies. Regulatory activities include licensing, inspections, and investigations of irregularities, with the goal of maintaining the integrity of the sport, ensuring safety for the participants, animals, and the public, and promoting horse racing in Oregon.

Revenue Sources and Relationships

The Oregon Racing Commission is funded exclusively with Other Funds derived from the agency's share of revenue from live horseracing, simulcast wagering, and off-track betting sites; participant licens-e fees; business licenses from companies that process pari-mutuel wagers; fines; unclaimed winnings; and historic racing wagers. The Commission receives 1% 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 $200 daily licensing fee and a tax on the gross wagering receipts of the ten Hubs currently licensed in Oregon. The tax is calculated as a percentage of gross wagering receipts according to one of two formulas Hubs elect to use, as set out in administrative rule. These payments are capped in administrative rule and increase by 2.5% each year unless the Commission changes the limit before the fiscal year begins. Payments for fiscal year 2021 are capped at $740,695. 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 for these businesses to remain in Oregon. The 2021-23 budget assumes all 10 hubs will be licensed.

The revenue assumptions for the 2021-2023 biennium project: live racing revenues to increase slightly; participant licensing fees to remain static; unclaimed winnings revenues to decrease; and revenues from fines and forfeitures to remain even. Revenue derived from historic racing ended with the closure of Portland Meadows. The new commercial race meet operator is expected to open a new facility at Grants Pass Downs to include historic racing terminals. The agency does not anticipate receiving revenue from this source for 2021-2023.

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. With the closing of Portland Meadows in June 2019, the Racing Commission lost its one exclusive simulcast licensee resulting in a loss of simulcast network revenue. Shortly after Portland Meadows closed, a new commercial race meet operator emerged. TMB Racing, LLC applied for licensure and conducted a race meet in fall 2021. However, simulcast revenue declined due to the change in the network operator. TMB Racing took immediate steps to rebuild the simulcast network by opening all previously closed simulcast sites. The spring 2020 COVID-19 closures caused the network to go dark between March and July of 2020; however, as of July 15, 2020, all sites have reopened.

Legislatively Adopted Budget

The agency's 2021-23 legislatively adopted budget of $7,351,396 Other Funds and 14 positions (10.39 FTE) represents a 16.1% increase from the 2019-21 legislatively approved budget. Budget increases are due to technical adjustments and a one-time special payment of $411,598 for racing development to mitigate the lasting impacts of the COVID-19 closures. The budget leaves the Oregon Racing Commission with an estimated ending balance of $988,199, which is equivalent to about three months of operations, including special payments.

Legislatively Approved Budget Update

Based on actions taken during the 2022 regular session, the legislatively approved budget for the Oregon Racing Commission totals $7,523,592 Other Funds. The budget increased by $172,196, or 2.3%, from the 2021-23 legislatively adopted budget. Most of this increase is due to an additional $119,090 in Other funds expenditure limitation for a new annual report the agency must submit to the Legislature on greyhond race wagers, which is required by SB 1504 (2022). Also included is a $53,106 increase for previously approved statewide compensation plan adjustments.

DEPARTMENT OF REVENUE

Analyst: Siebert

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	207,288,643	211,133,745	242,537,681	250,139,343
Other Funds	142,304,113	130,361,113	155,572,693	304,678,451
Other Funds Nonlimited	2,255,001	--	--	--
Total Funds	**$351,847,757**	**$341,494,858**	**$398,110,374**	**$554,817,794**
Positions	1,094	1,001	1,125	1,127
FTE	1,014.40	957.18	1,060.21	1,061.21

Overview

The Department of Revenue (DOR) is the tax administration agency for state government. The agency is responsible for administering 37 tax programs, including personal income and corporate excise taxes, a corporate activities tax, state marijuana tax, and a variety of other taxes and fees. DOR provides oversight of local property tax administration by counties, values most industrial and other large-scale properties, and administers several property tax relief programs. The agency also provides debt collection services for 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 and Other Funds. DOR's Other Funds revenue is derived from three primary sources: (1) administrative prorate charges to various Other Fund taxes, fees, assessments, and collection activities; (2) direct charges to program revenues, such as the Corporate Activity Tax, collections, and the Marijuana Tax; and (3) 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 Assistance 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 2021-23 biennium, DOR is estimated to collect $20.7 billion in personal income taxes, $2.4 billion in Corporate Activity Tax, and $1.4 billion in corporate income taxes. 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 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 most 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 field offices across the state.

DOR has successfully completed a number of key legislative initiatives, including: implementation of the recreational marijuana tax program, transportation taxes, and Corporate Activity Tax, as well as the centralization of all debt collection practices across state government within DOR. DOR has also implemented the Core Systems Replacement project, a state-of-the-art revenue management system in 2018.

Due to the COVID-19 pandemic, most of the Department's work has transitioned to a remote work environment. The Department reports that reduced account volumes are being sent to Other Agency Accounts by state agencies due to impacts of COVID-19 pandemic on their own processes, including establishing fewer new accounts, following state or federal guidance, and providing separate relief efforts. Taxpayer relief efforts, including for those impacted by wildfires, have extended deadlines and loosened payment plan criteria slowing some tax collection activity. In addition, travel restrictions have impacted some field collections and audit work.

Legislatively Adopted Budget

The budget for the Department of Revenue is $398.1 million total funds, which is a $46.3 million, or 13.2%, increase from the 2019-21 legislatively approved budget. The budget includes $242.5 million General Fund, $155.6 million Other Funds, and includes 1,125 positions (1,060.21 FTE).

Significant General Fund increases include:

- $23.2 million for the Department to make grants to counties for reimbursement of lost tax revenue related to the 2020 wildfires.
- $7.8 million for ongoing contracted maintenance and support of GenTax, the agency's tax administration system. The funding will also build the agency's information technology capacity to eventually reduce its dependence on vendors for the system.
- $575,790 for 10 permanent seasonal positions (4.68 FTE) to address peak workload during tax season within the Personal Tax and Compliance Division.

Other Funds for the Department are $13.3 million, or 9.3%, more than the 2019-21 legislatively approved budget, which is primarily for the administration of the Corporate Activity Tax program, expenditure of Article XI-Q Bond proceeds on the Electronic Valuation Information System (ELVIS) project and implementation of SB 587 (2021) which prohibits the retail sale of tobacco products or inhalant delivery systems in Oregon unless the retailer is licensed by the Department with limited exceptions. Other major changes include $1.4 million on a one-time basis to administer the statewide transit tax; $695,956 for the implementation of Ballot Measure 108 (2020); and $677,253 to support GenTax.

Lastly, in alignment with a 2019 Department report and prior legislative direction, $32.6 million General Fund, $2.5 million Other Funds, and 175 positions (174.56 FTE) from the Personal Tax and Compliance Division and Business Division were shifted to the Collections Division to consolidate all collection functions into a single division. The budgetary impact of this shift nets to zero agency wide.

Legislatively Approved Budget Update

DOR's legislatively approved budget totals $554.8 million, which is an increase of $156.7 million, or 39.4%. from the 2021-23 legislatively adopted budget. The budget includes $250.1 million General Fund, $304.7 million Other Funds, and 1,127 positions (1,061.21 FTE).

The increase is primarily due to $147 million in Other Funds approved in HB 4157 (2022). The bill directs DOR to establish a program to provide one-time $600 payments by July 31, 2022 to qualified households with members who received an Earned Income Tax Credit during tax year 2020 and worked during the first year of the COVID-19 public health emergency. Funding to support these payments comes from American Rescue Plan Act Coronavirus State Fiscal Recovery Fund moneys received by the Department of Administrative Services and transferred to DOR which spends the monies as Other Funds.

Administration Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	27,373,952	32,733,434	32,199,466	32,777,902
Other Funds	7,202,857	8,422,461	8,297,353	8,362,370
Total Funds	**$34,576,809**	**$41,155,895**	**$40,496,819**	**$41,140,272**
Positions	71	68	72	72
FTE	71.00	68.00	71.33	71.33

Program Description

The Administration Division provides overall Department leadership and supports the work of the rest of DOR by providing services in the following areas: the Director's Office, Finance (including the Accounting, Procurement, and Budget and Payroll sections), Communications, Facilities, Project Management, the Disclosure Office, Human Resources, Internal Audit, and Research.

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

During the 2017-19 biennium, a series of budget notes 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 made progress addressing the findings and outcomes from these various external reviews.

During the 2021 session, the Legislature included a budget note for the agency to report by January 2023 on modernizing and enhancing its customer call centers. The Legislature also passed HB 3373, which created the Taxpayer Advocate Office. The Taxpayer Advocate, which is subject to all confidentiality and disclosure provisions applicable to the department, must help taxpayers understand the policies and procedures available to them when resolving problems related to tax programs or debt collection programs administered by DOR.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Administration Division totals $40.5 million, which is $5.9 million, or 17.1%, more than the 2019-21 legislatively approved budget and includes 72 positions (71.33 FTE). The budget includes the following increases:

- $371,593 General Fund, $200,089 Other Funds, and 3 positions (2.33 FTE) to stand up the Taxpayer Advocate Office established by HB 3373 (2021).
- $292,002 General Fund to support one full-time Operations and Policy Analyst 4 position (1.00 FTE). The position will lead initiatives to improve the efficiency and effectiveness in the management of resources, lead analyses of systems and processes, and work with agency management to develop business cases and policy option packages.

Legislatively Approved Budget Update

The division's legislatively approved budget totals $41.1 million, which is an increase of $643,453, or 1.6%, from the 2021-23 legislatively adopted budget. The increase is due to previously approved statewide employee plan adjustments. No changes to positions or FTE were made.

Property Tax Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	17,447,147	19,253,100	42,335,705	42,980,392
Other Funds	43,949,920	45,580,451	45,574,835	45,736,208
Total Funds	**$61,397,067**	**$64,833,551**	**$87,910,540**	**$88,716,600**
Positions	81	80	80	80
FTE	80.13	79.25	79.25	79.25

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, trains and advises 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 Cadastral Information Systems program provides mapping services to several mostly small, eastside counties and performs statutorily required work, including boundary change approvals. PTD also manages the Oregon Senior and Disabled Citizen Property Tax Deferral Program.

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 document recording fees ($9.00) and a portion of the interest from delinquent property taxes. These revenue streams originate with counties and are transferred to the state. Each biennium, 90% of CAFFA revenue is distributed to counties to pay for essential assessment and taxation functions. These include valuation, administration, appeals, tax collection and distribution, mapping, and information processing. The remaining 10% is used to pay for a portion of PTD's industrial and utility property appraisal responsibilities and the administration of the CAFFA program.

Funding for ORMAP comes from a $1 addition to document recording fees. The number of counties using the program for mapping support has decreased over the past several years from 14 to 10. The number of dedicated program staff has likewise declined from 20 in 2003 to approximately seven for the 2021-23 biennium. The Division also receives revenue for the administration of smaller tax programs.

Budget Environment

For state-appraised industrial properties, there are approximately 831 sites with 4,750 accounts. There are over 530 centrally assessed companies in the state. Between the two property types, there is a combined property value of over $63 billion, which equates to nearly $600 million in property tax assessments for Oregon's 36 counties.

In past biennia, PTD has need to hold positions vacant to fill revenue shortfalls in the Division primarily by holding positions vacant. For example, the PTD has had to disband an entire appraisal section. 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. The Legislature provided supplemental General Fund support to the program during the 2019-21 budget cycle.

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 provided additional remedies if a county cannot meet its statutory duties.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $87.9 million is $26.5 million, or 43.2%, more than the 2019-21 legislatively approved budget and includes 80 positions (79.25 FTE). The budget includes a one-time General Fund appropriation of $23.2 million, provided in HB 5006 (2021), for DOR to make grants to counties for the reimbursement of lost tax revenue related to the 2020 wildfires. Distribution of these funds will be limited to counties included in Executive Order 20-60 that were impacted by the 2020 wildfires and that can demonstrate losses due to the September 2020 wildfires in property tax years beginning on or after July 1, 2020. The budget also included funding for a new property valuation system, which is included in the Core System Replacement (CSR) program.

Legislatively Approved Budget Update
The division's legislatively approved budget totals $88.7 million, which is an increase of $806,060 (or 0.9%) from the 2021-23 legislatively adopted budget. The increase is due to previously approved statewide employee plan adjustments. No changes to positions or FTE were made.

In addition to the budget increase, a change in the methodology used by DOR to distribute grant funds to counties associated with lost tax revenue related to the 2020 wildfires was approved. HB 5006 (2021) provided a one-time General Fund appropriation of $23.2 million for DOR to make grants to counties for the reimbursement of lost tax revenue related to the 2020 wildfires. As directed in the budget report to this bill, DOR made the first distribution of $4.8 million to counties in December 2021. Rather than having counties come back annually and attest to their loss as directed in the budget report, a one-time disbursement of the remaining $18.4 million to counties in the same proportion counties received in the first distribution was approved. This approach was approved to maximize use of the funds by providing resources as soon as possible to the impacted counties. The following grants amounts will be provided to counties:

- Clackamas – $446,166
- Douglas – $248,458
- Jackson – $10,803,960
- Klamath – $871,329
- Lane – $2,211,940
- Lincoln – $795,012
- Linn – $275,824
- Marion – $2,732,938

Personal Tax and Compliance Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	79,092,342	86,643,016	58,568,078	61,878,919
Other Funds	1,826,433	1,875,337	1,289,324	148,337,480
Total Funds	**$80,918,775**	**$88,518,353**	**$59,857,402**	**$210,216,399**
Positions	391	391	263	265
FTE	390.76	390.55	253.73	254.23

Program Description
The Personal Tax and Compliance Division (PTAC) administers the personal income tax and provides enforcement and collection services for the TriMet and Lane Transit District Self-Employment taxes. PTAC's mission is to

improve taxpayer compliance with the programs it administers through taxpayer assistance, education, and enforcement activities. To aid voluntary compliance, PTAC provides taxpayer education and assistance programs. It also employs enforcement activities for those who do not voluntarily comply with Oregon's personal income tax laws. Enforcement actions affect individuals who fail to file required returns, understate income, overstate expenses or deductions, or fail to pay.

Revenue Sources and Relationships

This Division is supported primarily by General Fund revenues. The personal income tax is projected to bring in approximately $20.7 billion during the 2021-23 biennium. PTAC Other Funds expenditures are primarily for the administration of Tri-Met and Lane County Transit Self-Employment Tax programs.

Budget Environment

Voluntary payments of income tax withholdings, quarterly estimated tax payments, and payments submitted with tax returns account for approximately 97% of personal income revenues. The remaining 3% are from audit and collection activities undertaken by the program. An estimated 2.2 million personal income tax returns were processed in 2020 and approximately 91% of returns were 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-reported income, un-reported income or over-reported deductions. In 2020, $7.7 million worth of fraud was stopped. 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.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $59.9 million is $21.1 million, or 26%, less than the 2019-21 legislatively approved budget and includes 263 positions (253.73 FTE). The budget includes:

- A shift of $29.2 million General Fund, $583,326 Other Funds, and 147 positions (147.00 FTE) from PTAC to the Collections Division in alignment with a 2019 DOR report and prior legislative direction. The budgetary impact of this shift nets to zero agency wide.
- $575,790 General Fund, $11,747 Other Funds, and 10 permanent seasonal positions (4.68 FTE) to address peak workload during tax season. DOR has used budgetary savings from leave without pay and vacancies to cover the costs of seasonal positions in recent years but the consolidation of collections functions in the Collections Division reduces the availability of this resource.
- $438,569 General Fund and three positions (2.00 FTE) to implement SB 727 which creates a new income tax on qualified pass-through entities, known as the Business Alternative Income Tax.
- $397,011 General Fund and five positions (2.50 FTE) to implement HB 2433 which is an omnibus tax bill that extends various tax credit sunset dates and makes minor changes and substantive policy changes to existing tax laws and credits.
- $161,387 General Fund and one position (0.50 FTE) to implement SB 139 which reduces the marginal tax rates to which non-passive, pass-through income is subject.

Legislatively Approved Budget Update

The legislatively approved budget totals $210.2 million, which is an increase of $150.4 million, or 251.2%, from the 2021-23 legislatively adopted budget and includes 265 positions (254.23 FTE).

The approved budget includes:

- $479,713 General Fund and $147 million Other Funds from the adoption of HB 4157 (2022), which directs DOR to provide one-time $600 payments to households with members who received an Earned Income Tax Credit during tax year 2020 and worked during the first year of the COVID-19 public health emergency. Revenue for the payments is available from American Rescue Plan Act Coronavirus State Fiscal Recovery

Funds received by the Department of Administrative Services and transferred to DOR. The General Fund appropriation is for anticipated overtime and office supply costs, such as letters and checks to payment recipients.

- $326,344 General Fund and two positions (1.00 FTE) for DOR's administration of the Oregon Psilocybin Services Act approved by voters in the 2020 general election with the passage of Ballot Measure 109. The funding supports one permanent full-time Operations and Policy Analyst 3 (0.50 FTE) and one permanent full-time Administrative Specialist 2 (0.50 FTE) to ensure taxpayer compliance with the law. The funding also supports Attorney General expenses for legal advice and assistance with appeals or litigation.
- $2.5 million General Fund and $48,156 Other Funds for employee compensation plan adjustments.

Business Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	23,660,861	25,120,857	21,574,849	22,400,812
Other Funds	13,054,626	13,335,699	13,855,154	14,313,928
Total Funds	**$36,715,487**	**$38,456,556**	**$35,430,003**	**$36,714,740**
Positions	162	153	136	136
FTE	155.10	152.06	135.00	135.00

Program Description

The Business Division administers programs responsible for corporate income and excise taxes, employer income tax withholdings, state and local transit payroll taxes, fiduciary taxes, inheritance, cigarette and other tobacco taxes, vehicle excise and use taxes, and other taxes and special programs. Although administered by the Business Division, the costs associated with administering marijuana and corporate activity taxes are budgeted in the Marijuana Program and the Corporate Division, respectively. Audit activity for corporation, excise tax, and transit self-employment tax returns is performed by staff located in Salem and in field offices around the state.
The Business Division also shares responsibility for administering the Combined Payroll Tax Program with the Oregon Employment Department, which processes most returns and administers the state's unemployment tax, and the Department of Consumer and Business Services, which administers the workers' benefit fund assessment.

Oregon is a compact member of the Multistate Tax Commission (MTC), which has 15 member states, plus the District of Columbia. 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. Revenues received from MTC enforcement activities are deposited into an MTC revolving account. Historically, account balances of more than $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 because of audits performed by the MTC.

Budget Environment

Each year the program processes approximately 100,000 corporate tax returns, 2,100 inheritance returns, and 36,000 fiduciary returns. Cigarette taxes are collected through the purchase of tax stamps by licensed cigarette distributors, while distributors of other tobacco products also file returns.

The adoption of SB 587 (2021) increased the Business Division's responsibilities by prohibiting the retail sale of tobacco products or inhalant delivery systems in Oregon unless the retailer is licensed by the Department or holds a license with a city or local public health authority. The bill allows DOR to revoke, suspend, or refuse to issue or renew a license. The measure also authorizes DOR to establish fees to cover costs, impose civil penalties, and to share licensing information with the Department of Justice, Oregon Health Authority, and local public health authorities. The regulatory provisions of the bill became effective January 1, 2022.

Legislatively Adopted Budget

The Business Division's 2021-23 legislatively adopted budget of $35.4 million is $1.3 million, or 3.5%, less than the 2019-21 legislatively approved budget and includes 136 positions (135.00 FTE). The budget includes:

- A net-zero shift of $3.4 million General Fund, $1,926,047 Other Funds, and 28 positions (27.56 FTE) from the Division to the Collections Division to align with a 2019 DOR report and prior legislative direction.
- $1.1 million Other Funds and five positions (4.50 FTE) to implement SB 587, which prohibits the retail sale of tobacco products or inhalant delivery systems unless the retailer is licensed by DOR.
- $695,956 Other Funds and 4.33 FTE for the implementation of Ballot Measure 108 (2020), which increased the cigarette tax, imposed a cigarette floor tax, increased the cap on the cigar tax, and imposed a tax on inhalant delivery systems. This represents the roll-up of actions taken by the Emergency Board in December 2020, which included approval for $634,463 Other Funds and six positions (1.67 FTE).

Legislatively Approved Budget Update

The legislatively approved budget totals $36.7 million, which is an increase of $1.3 million, or 3.6%, from the 2021-23 legislatively adopted budget. No changes to positions or FTE were made. The increase is primarily due to employee plan adjustments and the passage of HB 4010 (2022), which includes a one-time General Fund appropriation of $195,894 to implement the Oregon Kratom Consumer Protection Act. The bill requires processors of kratom products to register with DOR to distribute, sell, or offer for sale wholesale kratom products in the state beginning on or after July 1, 2023. DOR will use the one-time funds to contract for configuration changes to its core and online systems for the registration of kratom processors.

Collections Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	32,759,938	33,429,723
Other Funds	13,626,145	14,801,885	17,342,709	17,962,779
Total Funds	**$13,626,145**	**$14,801,885**	**$50,102,647**	**$51,392,502**
Positions	73	73	248	248
FTE	73.00	73.00	247.56	247.56

Program Description

The Collections Division is responsible for DOR's collections functions, including the Other Agency Accounts (OAA) section which is the centralized debt collection agency for Oregon. OAA currently manages debts and associated collections for 185 government agencies. Until recently, the department's collections functions were decentralized. At the direction of the Legislature, DOR submitted a feasibility study in 2019 that evaluated five potential organizational collections structures, ranging from the current structure to completely outsourcing collection functions to private firms. The report concluded that the centralization of all agency collection functions into a single division best aligned with its strategic priorities.

During the development of the 2019-21 budget, DOR formally established a Collections Division framework by transferring the Business Division's OAA section and staffing into a new programmatic or division structure. The 2021-23 legislatively adopted budget consolidated all collection functions into the Collections Division. The centralization of debt collection activities resulted in the consolidation of debtor accounts, increased use of data analytics, a more consistent application of specialized collection practices, standardization of debtor customer service, and efficiencies 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
For 2020, the debt collection rate of tax debt collected at DOR was 17.2%, which is line with tax debt collected over the past 10 years. The collection rate of the OAA section was 8.9% for 2020. This has increased since a low of 5.3% in 2017. 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. The private collection rate was 1.7% for 2020 which is in line with the collections rate for the past 10 years. Private collections have less collection tools than DOR and for debt that has become more challenging to collect.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget is $50.1 million and includes 248 positions (247.56 FTE). The budget includes:

- A net zero shift of $32.6 million General Fund, $2.5 million Other Funds, and 175 positions (174.56 FTE) from the Personal Tax and Compliance Division and Business Division to the Collections Division.
- One-time increases of $214,500 General Fund and $71,500 Other Funds to continue to pay fees to banks for their participation in the state's bank account data matching function.

Legislatively Approved Budget Update
The legislatively approved budget totals $51.4 million, which is an increase of $1.3 million, or 2.6%, from the 2021-23 legislatively adopted budget. The increase is due to statewide employee compensation plan adjustments.

Corporate Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	--
Other Funds	11,645,314	20,682	15,893,907	16,638,267
Total Funds	**$11,645,314**	**20,682**	**$15,893,907**	**$16,638,267**
Positions	66	--	67	67
FTE	37.75	--	57.96	57.96

Program Description
The Corporate Division was established to administer the Corporate Activity Tax (CAT) established by HB 3427 (2019) as a tax on the commercial activities of Oregon businesses to help support education investments. The tax is $250 plus 0.57% on taxable commercial activities above $1 million, including a subtraction equal to 35% of the greater of input costs or labor costs. The primary budget authority for implementing the CAT was provided to the Department of Revenue via HB 5047 (2019).

Revenue Sources and Relationships
CAT revenue collections fund the Corporate Division's expenses, with remaining amounts transferred to the Fund for Student Success to support Oregon's K-12 education system. DOR's initial start-up costs were funded with General Fund prior to the availability of CAT revenue.

Budget Environment
DOR is implementing the CAT program primarily on the agency's model of voluntary compliance, with a focus on taxpayer education, outreach, and customer service. DOR began filing enforcement and auditing activities during 2021. The necessary resources were provided in the 2021-23 legislatively adopted budget for full program

implementation. The program is estimated to provide approximately $2.4 billion to the Fund for Student Success in the 2021-23 biennium.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget is $15.9 million Other Funds and 67 positions (57.96 FTE). The budget includes an increase of $4.4 million Other Funds and 39 permanent positions (29.50 FTE) for administering the CAT, including enforcement, audit, and collection activities. An additional $6,784 Other Funds is also included for ongoing contracted vendor support costs and data processing costs for Quick Modules, the software DOR uses to image tax returns and correspondence.

Legislatively Approved Budget Update
The legislatively approved budget totals $16.6 million, which is an increase of $744,360, or 4.7%, from the 2021-23 legislatively adopted budget. No changes to positions or FTE were made. The increase is due to statewide employee compensation plan adjustments.

Information Technology Services Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	42,077,981	37,194,466	45,027,503	46,270,944
Other Funds	7,297,299	5,421,723	7,413,807	7,648,020
Total Funds	**$49,375,280**	**$42,616,189**	**$52,441,310**	**$53,918,964**
Positions	226	212	233	233
FTE	183.15	170.57	190.37	190.37

Program Description
The Information Technology Services Division is DOR’s centralized information technology provider. 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, GenTax; Application Services, which develops and supports in-house applications used to administer DOR’s tax portfolio; and the Processing Center, which processes all incoming mail, returns, and payments.

Revenue Sources and Relationships
This Division is supported by General Fund and charges to Other Funds programs for their share of the Department’s information technology expenses.

Budget Environment
Since the implementation of the Core Systems Replacement project, the Division continues to decommission legacy tax applications, clean up the application portfolio, and remove obsolete computer platforms as applications are retired. The Processing Center handles more than three million paper returns and payments annually ensuring more than $15 billion in tax payments are banked and over 800,000 paper tax returns are processed. The Processing Center Modernization Project is a commercial-off-the-shelf product that moved 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 and completed in 2021.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $52.4 million is $3.1 million, or 6.2%, more than the 2019-21 legislatively approved budget and includes 233 positions (190.37 FTE). The budget includes the following increases:

- $5.6 million General Fund and $484,435 Other Funds for ongoing contracted maintenance and support of GenTax.
- $2.2 million General Fund, $192,818 Other Funds, and nine permanent positions (7.92 FTE) to build DOR's IT capacity to eventually reduce its dependence on vendors for GenTax.
- $1.4 million Other Funds and 11 limited duration positions (11.00 FTE) for one-time support to handle paper returns and correspondence related to the statewide transit tax. The state has a joint payroll tax form administered by the Employment Department, but due to that agency's modernization efforts and a lack of space on the tax form, DOR was unable to use that form.
- $243,871 General Fund, $21,206 Other Funds, and one permanent, full-time Information Services Specialist 7 position (0.88 FTE) focused on IT security to ensure DOR can sufficiently protect taxpayer data and maintain federal compliance.

Legislatively Approved Budget Update
The legislatively approved budget totals $53.9 million, which is an increase of $1.5 million, or 2.8%, from the 2021-23 legislatively adopted budget. The increase is due to statewide employee compensation plan adjustments.

Marijuana Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	4,609,158	4,926,318	4,903,516	5,026,002
Total Funds	**$4,609,158**	**$4,926,318**	**$4,903,516**	**$5,026,002**
Positions	**16**	**16**	16	16
FTE	**15.76**	**16.00**	16.00	16.00

Program Description
The creation of DOR's Marijuana Program resulted from the passage of Ballot Measure 91 (2014) and subsequent related legislation authorizing and regulating the sale of recreational marijuana, subject to the approval of local jurisdictions. The program consists of the staff needed to administer taxes on the sale of recreational marijuana, which include a state sales tax and local taxes for approximately 90 participating municipalities that have an agreement with DOR for the collection of local taxes on their behalf. As marijuana businesses are unable to use the formal banking system due to federal law, many municipalities pay their taxes in cash, which required the Department to build and staff a cash handling facility where all taxpayers who make cash payments must go. The responsibilities of the program also include communications, policy analysis, and the development of administrative rules and forms.

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. There is no statutory cap on the level of revenue DOR may retain for administrative and enforcement expenses. 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 collections occur at the agency's Salem headquarters. Taxpayers must make appointments with DOR to make marijuana related tax 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 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 2021-23 legislatively adopted budget of $4.9 million is $294,358, or 6.4%, more than the 2019-21 legislatively approved budget and includes 16 positions (16.00 FTE).

Legislatively Approved Budget Update

The legislatively approved budget totals $5 million. The budget increased by $122,486 (or 2.5%) from the 2021-23 legislatively adopted budget due to statewide employee compensation plan changes.

Nonprofit Homes for the Elderly Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,348,966	3,492,972	3,492,972	3,492,972
Total Funds	**$3,348,966**	**$3,492,972**	**$3,492,972**	**$3,492,972**

Program Description

The Nonprofit Homes for the Elderly program reimburse counties for the costs of a property tax exemption for certain nonprofit homes for the elderly. Under the program, counties grant a property tax exemption to qualifying nonprofit corporations that provide housing to individuals age 62 or older who are within certain income limits. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly. The nonprofit entity passes the property tax exemption on to eligible tenants in the form of reduced rent.

Revenue Sources and Relationships

A General Fund appropriation funds the program.

Budget Environment

Program 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. The nonprofit homes receive the exemption regardless of whether or to what extent the counties are reimbursed for this exemption. For the 2019-20 tax year, DOR made property tax payments of $1.6 million to 13 counties for 40 eligible dwellings.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $3.5 million is $144,006, or 4.3%, more than the 2019-21 legislatively approved budget. 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.

Legislatively Approved Budget Update

There were no changes to the 2021-23 legislatively adopted budget.

Senior and Disabled Citizens Property Tax Deferral Program

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	33,822,890	35,426,437	35,416,968	35,477,664
Total Funds	**$33,822,890**	**$35,426,437**	**$35,416,968**	**$ 35,477,664**
Positions	8	8	8	8
FTE	7.75	7.75	7.75	7.75

Program Description

The Oregon Senior and Disabled Citizen Property Tax Deferral Program pays property taxes and special property assessments for qualified senior and disabled citizens in exchange for a lien against the property in the amount of the deferred taxes. The lien is released upon repayment of the debt when the property is sold.

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.

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. The Legislature initially funded the program through General Fund appropriations until sufficient Other Funds revenue from home sales became available.

Starting in 2007, the collapse of the housing market 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. Legislation adopted in 2011 and 2012 made 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 state paid about $13 million in property taxes to counties for nearly 5,000 program participants in the 2019–20 tax year.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $35.4 million is $1.6 million (or 4.7%) more than the 2019-21 legislatively approved budget and includes eight positions (7.75 FTE).

Legislatively Approved Budget Update

The legislatively approved budget totals $35.5 million, which is an increase of $60,696 (or 0.2%) from the 2021-23 legislatively adopted budget. The increase is due to statewide employee compensation plan adjustments.

Core System Replacement

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	--	--	400,000
Other Funds	3,251,000	--	4,245,000	3,835,613
Total Funds	**$3,251,000**	**--**	**$4,245,000**	**$4,235,613**
Positions	--	--	2	2
FTE	--	--	1.76	1.76

Program Description
In prior biennia, the Core System Replacement (CSR) program was 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"). The re-initiated PVS project, Electronic Valuation Information System (ELVIS), is included in this program for the 2021-23 biennium.

Revenue Sources and Relationships
The program is funded with Other Funds revenue available through Article XI-Q bonds.

Budget Environment
The objective of the ELVIS project is to modernize the various outdated appraisal systems and associated manual processes used by the Valuation Section. Most of the applications used by the Valuation Section were designed over 20 years ago and there have been numerous initiatives to modernize the system. The most recent initiative, the PVS project, did not move forward due to issues with the project, including schedule delays, scope changes, and significant estimated cost increases. For the 2021-23 biennium, the ELVIS project will focus on modernizing the determination of real market value for the centrally assessed companies. DOR intends to seek funding in the 2023-25 biennium for industrial accounts.

Legislatively Adopted Budget
The 2021-23 legislatively adopted budget of $4.3 million is $994,000 (or 30.6%) more than the 2019-21 legislatively approved budget. The budget includes $4,245,000 Other Funds expenditure limitation for expenditure of Article XI-Q Bond proceeds for the ELVIS project authorized in SB 5506 (2021). One Information Systems Specialist 7 (0.88 FTE) and one Information Systems Specialist 8 (0.88 FTE) are provided to support the system.

Legislatively Approved Budget Update
The legislatively approved budget totals $4.2 million, which is a decrease of $9,387 (or 0.2%) from the 2021-23 legislatively adopted budget. A one-time General Fund appropriation of $400,000 was approved for the ELVIS technology project to cover the taxable portion of the project and frees up a commensurate amount of bond authorization. As a result of this action, an Other Funds expenditure limitation decrease of $435,000, which includes $35,000 for cost of issuance, was included for the decrease in expenditure of Article XI-Q Bond proceeds on the project authorized in SB 5701 (2022). The budget was also adjusted for statewide employee compensation plan adjustments.

Debt Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	14,287,394	6,695,900	6,579,170	6,507,679
Other Funds	2,018,471	550,120	1,340,120	1,340,120
Other Funds (NL)	2,255,001	--	--	--
Total Funds	**$18,560,866**	**$7,246,020**	**$7,919,290**	**$7,847,799**

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 base budget pays for Core System Replacement and Property Valuation System bonds issued during previous biennia.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget of $7.9 million is $10.6, or 57.3%, less than the 2019-21 legislatively approved budget. There are no positions budgeted under this program. The budget includes $672,270 General Fund for debt service and related costs for the 2021-23 biennium for the ELVIS project authorized in SB 5506 (2021), as well as costs of previously authorized bonds.

Legislatively Approved Budget Update

The legislatively approved budget totals $7.9 million. The total budget decreased by $71,491 General Fund, or 0.9%, from the 2021-23 legislatively adopted budget due to debt service adjustments.

SECRETARY OF STATE

Analyst: Siebert

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	14,203,202	14,384,268	18,230,183	18,915,145
Other Funds	67,608,013	72,352,274	75,757,327	79,761,879
Federal Funds	7,961,570	5,892,838	5,885,867	10,497,283
Total Funds	**$89,772,785**	**$92,629,380**	**$99,873,377**	**$109,174,307**
Positions	224	222	232	235
FTE	223.42	221.75	231.08	232.96

Overview

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.
- Corporation Division – Responsible for four major programs: Business Registry – the filing of business names, Uniform Commercial Code – 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.
- Administrative Services Division - provides administrative support and executive oversight. The Administrative Services Division also includes the Executive Office which houses the Secretary and immediate staff.

Revenue Sources and Relationships

The $18.2 million General Fund in the 2021-23 biennium legislatively adopted budget finances 18% of total agency expenditures, up slightly from 17% in the 2019-21 biennium. General Fund primarily supports the Elections Division, with some General Fund support in the Administrative Services Division, to pay Election Division administrative costs and other statewide expenses.

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. The Audits Division receives Other Funds revenues from assessments paid by state agencies, which are based on a pro-rata share of four risk factors (cash, revenues, expenditures, and full-time equivalent positions). This is 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.

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. 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 Corporation Division is fully funded by licenses and fees that are collected from business filings, secured transactions, and notaries public to support the General Fund and the Corporation Division. During the 2021 session SB 25 passed, which allows the Corporation Division to retain sufficient fee revenues to pay monthly expenses plus establish a two-month reserve. Any monthly revenue beyond these amounts will be transferred to the General Fund. The Elections Division receives Other Funds revenue from county payments for the Oregon Centralized Voter Registration (OCVR) system. Counties support a portion of OCVR operating costs. County payments in the 2021-23 biennium will total approximately $1 million.

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. 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 2021-23 budget includes $879,425 General Fund for OMV, representing the fourth and final payment of a four-biennium implementation schedule.

Legislatively Approved Budget Update

The budget for the Secretary of State increased by $9.3 million total funds, or 9.3%, over the 2021-23 legislatively adopted budget during the 2022 session. Of this total change, $2.6 million was added for statewide adjustments to employee compensation approved during the 2022 session.

Specific spending changes in each division are discussed below.

Administrative Services Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,538,442	3,951,466	3,988,330	4,103,663
Other Funds	19,764,711	22,353,339	25,952,684	27,534,997
Total Funds	**$23,303,153**	**$26,304,805**	**$29,941,014**	**$31,638,660**
Positions	66	66	72	74
FTE	65.92	66.00	71.50	72.75

Program Description

The Administrative Services Division provides policy direction for the agency and administrative support for 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. Most of the Division's budget supports Information Systems.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget is a $7,210,517 (or 31.7%) increase over the prior biennium and a 13.8% increase above the current service level. General Fund support is basically unchanged from the current service level with one addition detailed below.

Enhancements to the Administrative Services Division budget include:

- $1,370,393 Other Funds and five positions (4.50 FTE) to enhance the Agency's policy, legislative, and communications capabilities through the creation of a diversity, equity, and inclusion program and by providing enhanced administrative assistance. The permanent positions are a Program Analyst 4 (Diversity, Equity and Inclusion Director, Tribal Liaison); an Operations and Policy Analyst 4 (Senior Advisor and Strategic Projects Director); a half-time Operations and Policy Analyst 2 (Legislative Analyst); an Executive Support Specialist 2 (supplemental support for Deputy); and a Public Affairs Specialist 3 (Communications Specialist).
- $1,346,000 Other Funds to upgrade or replace information technology equipment and programs that have reached end of lifecycle or are no longer supported. The package also includes migration of an on-site data center to a high availability and resilient co-location data center, as appropriate.
- $600,000 Other Funds to procure services of a cloud security services partner for Managed Defense and Prevention to increase protection, defense and resiliency of the Secretary of State's information technology networks, data, and hardware assets.
- $240,290 Other Funds to add an agency wide training budget for succession planning, workforce training and development, required annual training as mandated by law and policy, and manage employee training and development records.
- $174,836 Other Funds and $19,426 General Fund to establish a Human Resource Analyst 1 position (1.00 FTE) to assist with Workday support. This position will also support equity and inclusion efforts in anticipation of policy and law changes. The Agency has experienced significant increases in protected leave usage due to the pandemic requiring extensive HR staff time.
- $1,570 General Fund and $15,192 Other Funds to reclassify two Information Systems Specialist (ISS) positions (ISS 5 to ISS 6 and ISS 7 to ISS 8) to properly reflect the increased level of responsibilities and scope of work.

Legislatively Approved Budget Update

The budget for the Administrative Services Division increased $1.7 million total funds, or 5.7%, over the 2021-2023 legislatively adopted budget, including increases for previously approved statewide adjustments to employee compensation. The Legislature approved additional increases including $550,000 Other Funds to replace the agency's aging server room equipment and HVAC units. Approval was also provided to shift the funding supporting two information technology positions in the Administrative Services Division from Help America Vote Act (HAVA) federal funding to Other Funds from agency administrative charges. States are no longer receiving new federal HAVA funds. This fund shift results in a $414,248 Other Funds expenditure limitation increase and a $414,248 Federal Funds expenditure limitation decrease in the Elections Division.

Elections Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	10,664,760	10,432,802	14,241,853	14,811,482
Other Funds	2,827,299	1,249,875	1,249,841	1,249,841
Federal Funds	7,941,570	5,872,838	5,865,867	10,477,283
Total Funds	**$21,433,629**	**$17,555,515**	**$21,357,561**	**$26,538,606**
Positions	25	23	26	24
FTE	24.75	23.00	25.83	24.58

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 voters' 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 2021-23 legislatively adopted budget for the Elections Division includes a $4,105,690 (or 23.8%) increase from the prior biennium level and is 21.7% above the current service level.

There were two meaningful increases in the Elections Division budget:

- $2,474,287 General Fund and one limited duration Program Analyst 4 position (1.00 FTE) to improve elections infrastructure. $2 million of this total was added for grants to counties to address county elections offices equipment and technology needs. This includes, but is not limited to, updating voting machines, purchasing new processing equipment (ballot sorters, tabulator upgrades, postmark scanners, keyed locks, and equipment for implemented upgrades), video surveillance upgrades, ballot drop boxes, and software needed for implementation of risk limiting audits. In addition, $120,000 General Fund was added for GIS interface updates needed to implement legislative redistricting. The limited duration position is supported with $354,287 General Fund and will assist with distributing resources to counties and addressing local county clerk redistricting needs.
- $879,425 General Fund to complete the Legislature's commitment to provide funding for eight years, or four biennia, to help offset the costs associated with the Oregon Motor Voter Law. HB 2177 (2015), known as the Oregon Motor Voter Law, created additional costs to Oregon's 36 counties by increasing the number of ballots printed. This is the last biennial payment of this agreement.

Legislatively Approved Budget Update

The budget for the Elections Division increased $5.2 million total funds, or 24%, over the 2021-2023 legislatively adopted budget, including increases for previously approved statewide adjustments to employee compensation. The Legislature also approved a $5.3 million Federal Funds expenditure limitation increase to pay costs associated with the Oregon Centralized Voter Registration system replacement project. This project is part of a modernization effort involving the state's centralized voter registration and elections management software. After reviewing requests for proposals, and in consultation with an advisory committee that included local elections representatives, a vendor was selected that recently completed similar projects in Arizona and Washington. This amount should be sufficient to pay remaining 2021-23 biennial costs. The project will be completed next biennium. An additional adjustment was a shift in the funding used to support an Operations and Policy Analyst 3 and a Principle Executive Manager D in the Elections Division, which changed position support funding from Help America Vote Act federal funding to the General Fund. This fund shift results in a $327,112 General Fund increase and a $327,112 Federal Funds expenditure limitation decrease.

Audits Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	23,910,492	26,213,991	26,037,312	27,023,646
Total Funds	**$23,910,492**	**$26,213,991**	**$26,037,312**	**$27,023,646**
Positions	72	72	72	72
FTE	72.00	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.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Audits Division contained no significant enhancements or reductions. Budget increases are due to standard adjustments such as inflation allowance, price list increases, and fully phased-in compensation adjustments from the previous biennia. The 2021-23 legislatively adopted budget is slightly below the current service level due to end-of-session reductions to assessments and charges meant to reflect the final adopted revenue needs of the charging agencies.

Legislatively Approved Budget Update

The budget for the Audits Division increased by $986,334 total funds, or 3.8%, over the 2021-2023 legislatively adopted budget. This increase is entirely due to increases for previously approved statewide adjustments to employee compensation.

Archives Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	8,757,311	9,041,294	9,209,622	9,578,582
Federal Funds	20,000	20,000	20,000	20,000
Total Funds	**$8,777,311**	**$9,061,294**	**$9,229,622**	**$9,598,582**
Positions	22	22	23	24
FTE	21.75	21.75	22.75	23.38

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 2021-23 legislatively adopted budget for the Archives Division is a 10% increase from the prior biennium level. The Division is fully supported by Other Funds primarily from assessments and charges for services, with some additional revenue from sales and small federal grants.

Enhancements to the Archives Division budget include:

- $203,591 Other Funds and a limited duration Archivist 1 position to preserve recording of legislative hearings. Legislative committee hearings dating from 1957 to 2007 were recorded using propriety technology and inherently unstable media, including Sawyer Rols, reel-to-reel tapes, and audiocassette tapes. These verbatim audio recordings serve as the only complete record of the legislative committee hearings and are accessed by Oregon's legal researchers and constituents alike. Long-term access to these records is at risk due to the inevitable degradation of the media and the obsolescence of hardware needed to play the recordings. To perform the initial work of digitizing over 100,000 legislative recordings, the Reference Unit of the Archives Division will utilize the approved limited duration position.
- $144,000 Other Funds to increase storage capacity of the Oregon Records Management System (ORMS). To store the previous, current, and future Governor's electronic records, digitized legislative audio and county historical records, the State Archives needs to purchase additional storage capacity within the agency's private government cloud of ORMS. Archives will use ORMS to push all these historically valuable electronic records out on the agency's public facing webdrawer for free access by the public.

Legislatively Approved Budget Update
The budget for the Archives Division increased by $368,960 total funds, or 4%, over the 2021-23 legislatively adopted budget, which includes budget increases for previously approved statewide adjustments to employee compensation. A $120,876 Other Funds increase was also approved for the establishment of one limited duration Archivist 1 position (0.63 FTE) to increase the rate of old legislative records being preserved by the Archives Division through digitization. One limited duration Archivist position was approved as part of the agency's 2021-23 legislatively adopted budget to begin this work, but as the preservation work got underway the records were more deteriorated than initially estimated.

Corporation Division

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	12,348,200	13,493,775	13,307,868	14,374,813
Total Funds	**$12,348,200**	**$13,493,775**	**$13,307,868**	**$14,374,813**
Positions	39	39	39	41
FTE	39.00	39.00	39.00	40.25

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.

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. During the 2021 session the Legislature passed SB 25, which restructures the way fees not needed to operate the Division are transferred to the General Fund. SB 25 allows the Corporation Division to retain sufficient fee revenues to pay monthly expenses plus maintain a two-month reserve. Any monthly revenue beyond these amounts will be transferred to the General Fund. Previously, the Division could retain $20 per transaction; however, this amount became insufficient to sustain operations.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Corporation Division is a 11.2% increase over the prior biennium. This increase is caused by standard adjustments such as inflation allowance, price list increases, and fully phased-in compensation adjustments from the previous biennia. The 2021-23 legislatively adopted budget is slightly below the current service level due to end-of-session reductions to assessments and charges meant to reflect the final adopted revenue needs of the assessing agencies.

Legislatively Approved Budget Update

The budget for the Corporation Division increased by $1.1 million total funds, or 8%, over the 2021-2023 legislatively adopted budget, including increases for previously approved statewide adjustments to employee compensation. The Legislature also approved two additional budget adjustments for the Division. The first was a $500,000 Other Funds expenditure limitation increase to accommodate transaction and service fee costs associated with growth in credit card payments. The second budget adjustment was a one-time $194,248 Other Funds expenditure limitation increase for the establishment of two limited duration Public Service Representative 4 positions (1.25 FTE) to reduce customer wait times and increase service levels at the Corporation Division Call Center.

STATE TREASURER

Analyst: Campbell

Agency Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	95,461,860	100,841,626	115,832,025	118,930,410
Other Funds (NL)	--	--	2,900,000	2,900,000
Total Funds	**$95,461,860**	**$100,841,626**	**$118,732,025**	**$121,830,410**
Positions	169	165	210	210
FTE	165.01	164.16	200.36	200.36

Overview

Oregon State Treasury (OST) provides banking, investment, and debt management services for the State of Oregon. OST maintains all state agency financial accounts and invests state funds not needed to meet current expenditure demands, including the state's Trust Funds. OST coordinates and issues state bonds, provides oversight of local government bonding, manages the Public Funds Collateralization Program for all financial institutions holding public funds, and invests excess funds for participating local governments. OST also administers Oregon 529 savings plans and the Oregon Retirement Savings Board, which oversees a defined contribution retirement plan (OregonSaves) for Oregonians whose employers do not offer their own plan.

The State Treasurer is a statewide elected official whose authority is established by Article VI, Section 1 of the Oregon Constitution and various state laws. The Treasurer is statutorily designated as the investment officer for the state and 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 serves on the State Land Board, chairs the State Debt Policy Advisory Commission and Oregon Retirement Savings Board, and oversees the Oregon State Treasury, the agency, as assisted by a Chief of Staff and a Deputy State Treasurer.

Although considered an executive branch agency, the State Treasurer, as a separately elected, constitutional office, may operate independent of the Governor. The executive branch makes no recommendation and exercises no budgetary control over the State Treasurer's budget. That responsibility falls solely to the Legislature. In the performance of constitutional duties, the State Treasurer is exempt from many statutes that apply to executive branch agencies, including large portions of human resources, procurement, and information technology statutes. OIC also has broad statutory authority and is not subject to legislative budgetary control.

Revenue Sources and Relationships

OST is funded with Other Funds revenues, which are projected to total $119 million in the 2021-23 biennium, with a beginning cash balance of $29.8 million and estimated ending cash balance of $30.1 million. The level of operating reserves varies between programs based on their various revenue streams. OST has broad authority to set its fees within statutory limits and most OST programs are supported by their own fees and charges. Revenue is generated primarily from charges and fees related to the value of managed portfolios, number and type of banking transactions processed, financial accounts, proportion of outstanding debt held by agencies, new bond issuances, bond and coupon redemptions, and holdings of state funds in excess of FDIC insurance levels. As the value of managed investment portfolios increases, so does the agency's ability to generate revenue while remaining within its statutory limits. Revenues from each operating program are used to fund shared services and administrative programs that provide direct and indirect services via a cost allocation process.

General Fund loans supported the development and implementation of OregonSaves and the Achieving a Better Life Experience (ABLE) Act Program in the 2015-17 and 2017-19 biennia. These programs are now self-supporting with application, account, or administrative fees, although the loan repayment has not yet started. OST expects to start repaying the outstanding General Fund loans during the 2023-25 or 2025-27 biennium.

Budget Environment

The OST budget is driven by the number and complexity of financial transactions, investments, and bond transactions, as well as participation levels in other programs such as the Public Funds Collateralization Program, Oregon 529 Savings Plan, and OregonSaves. The agency processes over 30 million banking transactions biennially, including deposits, electronic fund transfers, and check issuances. OST manages, under the direction of the OIC, the majority of Oregon's short, intermediate, and long-term investment assets, including the Oregon Public Employees Retirement Fund (OPERF), State Accident Insurance Fund (SAIF), Common School Fund (CSF), and Oregon Short Term Fund (OSTF). As of June 30, 2021, the value of managed investments totaled $126.7 billion, the largest of which is the $90 billion OPERF. OST-generated returns on these funds have broad budgetary implications for state and local governments as investment returns play an important role in funding operational activities.

The passage of SB 454 (2019) transferred administration of the Uniform Disposition of Unclaimed Property Act, unclaimed estates, and escheated property from the Department of State Lands (DSL) to the State Treasurer effective July 1, 2021. During the 2021 session, the Legislature passed HB 2158, which made changes to facilitate the transfer, including the establishment of funds required to operate the programs, identification of transfers between the funds, and transition of revenue authority to the State Treasurer. The expenditure limitation and positions for the Unclaimed Property and the Estates and Escheated Property Programs were transferred from DSL to OST in the 2021-23 legislatively adopted budget.

Oregon's general obligation bond debt is rated AA+, Aa1, and AA+ by Fitch Ratings, Moody's Investors Service, and Standard & Poor's, respectively. This strong credit rating, combined with a low interest rate environment over the past few years, has reduced the state's borrowing costs on new issuances and provided the opportunity to refinance outstanding debt at lower rates. As of June 30, 2020, state-backed debt outstanding totaled $11 billion, including $6.5 billion of general obligation bonds.

Per direction from a budget note in the 2019 legislative session and a report to the Joint Committee on Ways and Means in the 2020 legislative session, the 2021-23 budget for OST implements a new budget structure to improve transparency and oversight. The new structure includes the following budgeted program areas: State and Local Government Financial Services, Public Savings Services, Investment Services, Trust Property Services, and Administrative Services.

Legislatively Adopted Budget

The budget for the State Treasurer totals $118.7 million, including $115.8 million Other Funds, $2.9 million Nonlimited Other Funds, and 210 positions (200.36 FTE). The adopted budget represents a $23.3 million, or 24.4%, increase from the 2019-21 legislatively approved budget. Approximately 50% of the increase in attributable to the transfer of the Unclaimed Property and Estates and Escheated Property Programs. Other Funds expenditure limitation of $9.2 million, Nonlimited Other Funds of $2.9 million, and 31 positions (24.26 FTE) were added for the transfer of Trust Property programs and associated investments to support operations and improve program performance. The budget also includes additional resources and positions for banking resiliency and cash management activities; increased legal, compliance, and portfolio risk workload in Investment Services; and the new Treasury Resiliency Building lease.

Legislatively Approved Budget Update

The 2021-23 legislatively approved budget for the Oregon State Treasury totals $121.8 million, which is a 2.6% increase from the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

State and Local Government Financial Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	16,924,975	17,265,486	19,709,485	20,064,972
Total Funds	**$16,924,975**	**$17,265,486**	**$19,709,485**	**$20,064,972**
Positions	25	25	30	30
FTE	25.00	25.00	29.51	29.51

Program Description

State and Local Government Financial Services provides financial tools and services to state entities, public universities and related university entities, and local governments through two primary programs. The Cash Management Program provides centralized banking and short-term investment services to state agencies and other entities. These services include deposits, electronic fund transfers, merchant card acceptance, prepaid card issuance, and check and warrant issuance. The State Treasurer is designated as the sole banking and cash management officer for the state and establishes procedures for the handling of moneys under state agency control and reviews the effectiveness of agencies' cash management practices.

As part of the Cash Management Program, OST makes loans to state agencies and the General Fund to manage temporary cash flow insufficiencies and coordinates with the Debt Management Program to issue tax anticipation notes to finance current expenses of the state when a cash flow deficit is forecasted. The program provides administrative and operational support for the Oregon Short Term Fund (OSTF), which includes state agency operating funds, and the Local Government Investment Pool (LGIP), as a short and intermediate-term cash investment vehicles. Cash Management Program staff also administer the Public Funds Collateralization Program, which monitors commercial banks and credit unions that accept public funds to ensure the institutions pledge sufficient and appropriate collateral against any public fund deposits in excess of deposit insurance amounts.

The Debt Management Program coordinates the sale and issuance of all general obligation bonds, certificates of participation, tax anticipation notes, lottery revenue bonds, and other revenue bond programs for state agencies and public universities. Debt Management staff also oversee post-issuance compliance and reporting services, including tracking state debt data. The program 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. 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 also is responsible for the Oregon Facilities Authority, which connects both large and small nonprofits with tax-exempt "conduit" bonds, and for the Private Activity Bond Committee. Approved conduit bonds are issued by OST, but the debt is not an obligation of or guaranteed by the state.

The Debt Management Program provides staff support to the State Debt Policy Advisory Commission (SDPAC), which advises the Governor and 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 Funds-supported debt capacity, as well as all tax-supported debt programs. Debt Management assists local government debt issuance and management by staffing the Municipal Debt Advisory Commission (MDAC), which tracks and reports on the issuance of all local government bonds. 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. Debt Management Program staff also review and approve all local government advance refundings.

Revenue Sources and Relationships

State and Local Government Financial Services revenues are generated through banking transaction charges, investment fund management fees, and debt management charges. Banking charges are set to provide sufficient revenue to pay fees charged by Treasury's partner private sector banks as well as 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 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 $4.1 million for the biennium.

OST charges bank and credit union depositories for the reasonable expenses of the agency related to services, duties, and activities of the Public Funds Collateralization Program. Each bank and credit union depository is charged a flat fee of $250 for participating 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 $730,000 for the biennium.

ORS 293.718 authorizes the State Treasurer to deduct monthly investment fund management fees based on the value of assets under management from each of the investment funds. A maximum of 0.435 basis points (0.00435%) of the most recent value of assets under management may be deducted from commingled investment funds. Rates are reviewed annually and calculated to cover estimated costs to administer the funds based on projected assets under management. Commingled investment funds include the OSTF, Oregon Intermediate Term Pool (OITP), and Oregon Local Government Intermediate Fund (OLGIF), which total $27.2 billion in assets as of June 30, 2021. Commingled investment fund management fees are set at the maximum 0.435 basis points per month and are utilized to support the State and Local Government Services, Investment Services, and Administrative Services programs. During the 2021-23 biennium, $10.6 million of commingled investment fund management fees are projected to support State and Local Government Services activities.

The Debt Management 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. Anticipated assessments for centralized debt management services are included in the statewide Price List. Revenue is expected to total approximately $5 million for the biennium.

Budget Environment

OST provides services to nearly 80 state agencies, 10 public university entities, and more than 1,000 local governments. Most of the state's operating funds are invested in the OSTF through 827 agency and university accounts with an aggregate average daily balance of approximately $13 billion. Local governments have more than 1,500 accounts in the LGIP with an aggregate average daily balance of approximately $10 billion. In 2019, OST processed 16 million transactions valued at $294 billion. Additionally, as of June 30, 2021, approximately 30 banks with $3.8 billion in public funds deposits and 10 credit unions with $111.1 million in public funds deposits participate in the Public Funds Collateralization Program.

The state's cash management system is a highly integrated suite of 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 modernizing the agency's cash management applications and private banking contractual relationships through the Cash Management Improvement and Renewal Program (CMIRP) initiative. CMIRP was established in 2013 to focus the renewal and replacement of cash management processes and technology.

In 2019, the Legislature 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 determines the likelihood 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 makes the results available to the public and discloses 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 required to provide an annual report on local entity pension obligation bonds issued to the SDPAC. The measure also limits diversion agreements to no more than 100% of an entity's State School Fund distribution.

Legislatively Adopted Budget
The State and Local Government Financial Services 2021-23 legislatively adopted budget of $19.7 million is $2.8 million, or 16.5%, more than the 2019-21 legislatively approved budget and includes 30 positions (29.51 FTE). The budget includes an increase to support rent on the new Treasury Resiliency Building and the following investments:

- $1.9 million Other Funds and four positions (3.51 FTE) to modernize OST's core banking infrastructure and cash management operations. The package includes $1 million for one-time planning activities, including development of a business case and detailed cost estimates for project execution. Additionally, two limited duration Finance Division Analysts (1.80 FTE), a permanent Business Analyst (0.88 FTE), and a permanent Banking Operations Analyst (0.83 FTE) are established to improve the resiliency of banking and cash management activities.
- $281,383 Other Funds and one Senior Debt Analyst (Program Analyst 4) position (1.00 FTE) to oversee increased multifamily housing conduit bond issuance activity.

Legislatively Approved Budget Update
The State and Local Government Financial Services 2021-23 legislatively approved budget totals $20.1 million, which is a 1.8% increase from the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments.

Public Savings Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	11,776,987	12,710,958	12,803,819	12,913,264
Total Funds	**$11,776,987**	**$12,710,958**	**$12,803,819**	**$12,913,264**
Positions	9	9	9	9
FTE	9.00	9.00	9.00	9.00

Program Description
The Public Savings Services program, through the Oregon Treasury Savings Network, administers programs that help Oregonians save for education, retirement, and disability-related expenses. The Network consists of the following three programs: (1) Oregon 529 College Savings Program, a state-sponsored, tax advantaged savings program for qualified expenses at any accredited, post-secondary institution, trade school, or registered apprenticeship; (2) Oregon 529 ABLE Program, which helps people with disabilities and their families save without being disqualified from their state and federal benefits; and (3) OregonSaves, a new state-sponsored retirement savings program where employees without access to an employer-sponsored retirement plan are auto-enrolled and contribute part of their paychecks to individual retirement accounts (IRAs) that stay with them throughout their careers.

The Oregon 529 College Savings Program includes two college savings plans designed to encourage people to save for future education costs: the Oregon College Savings Plan, which is offered directly, and the MFS 529 Savings Plan, which is 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 state income tax credit of up to $300 for joint returns and $150 for other filers, adjusted annually for inflation. Prior to January 1, 2020, contributions were eligible to be claimed as a deduction against income for state income tax purposes, up to a maximum contribution amount. Under federal law, contributions to College Savings programs are not tax deductible; however, the earnings on accounts are excluded from taxable income. Oregon 529 College Savings Plans are overseen by the five-member Oregon 529 Savings Board.

The Stephen Beck Jr., Achieving a Better Life Experience (ABLE) Act program is open to individuals diagnosed with a disability before the age of 26. Program expenses qualify as disability-related if they are for the benefit of an individual with a disability and are related to the disability. Examples of qualifying expenses include education, housing, transportation, employment support, health and wellness, prevention, assistive technology, and personal support services. An ABLE account holder's balance is meant to supplement, but not supplant, benefits provided through private insurance, Medicaid, Supplemental Security Income, 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. Annual contributions may not exceed $15,000 and some contributions may be claimed as a state income tax credit of up to $300 for joint returns and $150 for other filers, adjusted annually for inflation. Prior to January 1, 2020, contributions were eligible to be claimed as a deduction against income for state income tax purposes, up to a maximum contribution amount. Under federal law, contributions to ABLE are not tax deductible; however, account earnings are excluded from taxable income. The Oregon 529 Savings Board oversees the ABLE savings program.

The Oregon Retirement Savings Board (ORSB) was created by HB 2960 during the 2015 session to establish a defined contribution retirement plan for people whose employers do not offer a qualified retirement plan under federal law. ORSB is a seven-member board, which includes two non-voting members from the Legislature. Before establishing a plan, the ORSB had to conduct market and legal analysis, establish rules for employees to be automatically enrolled and opt out of the plan, determine contribution and withdrawal processes, and establish exemptions for employers that provide alternative plans. ORSB established and oversees OregonSaves, which is voluntary self-directed Roth IRA. Employee contributions from employer payroll withholdings are transferred from employers to a specific plan provider with which ORSB contracts to manage participants' individual accounts. The State of Oregon is not responsible for transferring or holding in trust any employee contributions or accounts.

Revenue Sources and Relationships

The Oregon 529 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 credit against personal income taxes for contributions. The program generates Other Funds revenues from an annual administrative fee on plan assets. Current administrative fees approved by the Oregon 529 Savings Board for the Oregon College Savings Plan (direct-sold) and MFS 529 Savings Plan (advisor-sold) are equal to 25 basis points (0.25%) and five basis points (0.05%) of net plan assets, respectively. Administrative fees are calculated and remitted to the Network monthly by the Oregon College Savings Plan and MFS 529 Savings Plan. Revenues are projected to total $7.8 million for the biennium. The state tax expenditure for the Oregon tax credit, or measure of the General Fund revenue impact (loss), is estimated to be $36.7 million in 2021-23.

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 credit against personal income taxes for contributions. The Oregon ABLE Savings Plan receives fees based on the value of plan assets and annual account fees. Current fees equal 20 basis points (0.2%) annualized according to average daily net asset value and $8 per year per account. Partner state programs are charged 10 basis points (0.1%) annualized based on average daily net asset value and $3 per year per account to leverage the program structure. Fee revenue is estimated to total $1.8 million for the biennium. The state tax expenditure for the Oregon tax credit, or measure of the General Fund revenue impact (loss), is estimated to be $300,000 for the 2021-23 biennium.

ORSB charges administrative fees on assets under program management. Fees are collected by the plan administrator who remits OST a portion of the fees each month. The current administrative fee for OregonSaves is

15 basis points (0.15%) annualized based on average daily net asset value, and $500,000 per year for program advertising costs. Revenues are expected to total $3.9 million for the biennium.

OST expects to start repaying outstanding General Fund loans accrued during 2015-17 and 2017-19 for OregonSaves and the ABLE program in 2023-25 or 2025-27 based on revenue and expenditure forecasts from the initial program launches. Outstanding General Fund loans for OregonSaves and the ABLE program total $5,144,357 and $1,950,962, respectively.

Budget Environment

Although administered by OST, participant enrollment, investment management, and participant support for the 529 Savings Plans and OregonSaves is provided by third party contractors. The Oregon College Savings Plan had 124,624 accounts and total assets of $2.5 billion as of December 2020. The MFS 529 Plan had 84,016 accounts and total assets of $1.6 billion as of February 2020. As of June 30, 2020, 11.7% of Oregonians under 25 years of age had an Oregon 529 College Savings account. The state income tax credit for 529 plan contributions replaced a subtraction from income beginning with the 2020 tax year. However, in 2018, 47,640 full year residence personal income tax filers took an average subtraction of $3,010 and 1,460 part-year residence personal income tax filers took an average subtraction of $3,060. Notably, 87% of the revenue impact from the subtraction in 2018 accrued to those whose annual income was above $100,100.

ABLE launched in December 2016, and as of December 2020, had $31.9 million in assets and 3,615 total accounts. In tax year 2018, about 430 personal income taxpayers saved approximately $150, on average, using the tax deduction that was replaced by the state tax credit effective for tax years after 2019. 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.

OregonSaves has approximately $84.7 million in plan assets in 87,809 contributing participant accounts as of December 2020. The program officially launched on July 1, 2017 with the first of two pilot programs. An implementation plan, based on the number of employees an employer has, phased-in the program through 2021. Employers with 100 or more employees were scheduled to go first in the implementation schedule and employers with four or fewer employees will go last. SB 166 (2019) permits 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 ORSB requirements an unlawful employment practice.

Legislatively Adopted Budget

The Public Savings Services 2021-23 legislatively adopted budget totals $12.8 million Other Funds and is $1 million, or 8.7%, more than the 2019-21 legislatively approved budget and includes nine positions (9.00 FTE). The budget includes an increase to support rent for the new Treasury Resiliency Building in addition to standard inflationary adjustments for personnel and services and supplies costs.

Legislatively Approved Budget Update

The Public Savings Services 2021-23 legislatively approved budget is $12.9 million Other Funds, which is a 0.9% increase from the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments included in HB 5202, the omnibus budget bill for the 2022 regular session.

Investment Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	39,359,528	41,172,565	42,029,285	43,535,929
Total Funds	**$39,359,528**	**$41,172,565**	**$42,029,285**	**$43,535,929**
Positions	66	66	69	69
FTE	65.55	66.00	68.63	68.63

Program Description

The Investment Services program manages short, intermediate, and long-term investments of state and local governments, including: the Oregon Public Employees Retirement Fund (OPERF); State Accident Insurance Fund (SAIF); Common School Fund (CSF), Oregon Short Term Fund (OSTF); Oregon Intermediate Term Pool (OITP); Oregon Local Government Intermediate Fund (OLGIF); and several state agency fixed income funds. The program invests and reinvests moneys, subject to statutory standards and Oregon Investment Council (OIC) policy guidelines. OST does not invest funds for the Oregon Treasury Savings Network; however, it oversees investment contract selections in consultation with OIC.

Investment Services is organized into the following sections: Investment Management, Investment Operations, and Investment Legal and Compliance. The Investment Management Program manages diversified institutional portfolios both internally and through external asset managers. Although the percentage of assets managed internally has increased over the last several biennia, the majority of assets are managed through external investment managers. Investment Officers are organized around the types of investments, for example, public equities, private equities, fixed income, real estate, alternative, and opportunity investments. 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 their 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 $3.7 million plus other payroll expenses.

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 the Public Employees Retirement System (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, and benchmark return targets, and makes portfolio decisions on investment purchases and sales. However, some limited investment decision-making may be delegated to the State Treasurer. OIC also selects external investment managers and consultants, is responsible for risk management, and exercises the fiduciary responsibility of shareholders by voting for corporate board members.

OIC is not permanently staffed. OIC receives advice from outside investment and management consultants but relies primarily upon the statutory Chief Investment Officer (i.e., State Treasurer) and OST Investment Services for staffing, including for investment analysis and recommendations.

Revenue Sources and Relationships

ORS 293.718 authorizes the State Treasurer to deduct monthly investment fund management fees based on the value of assets under management from each of the investment funds. A maximum of 0.25 basis points (0.0025%) of the most recent value of assets under management may be deducted from all funds each month, except commingled investment funds (i.e., OSTF, OITP, and OLGIF), which many be charged 0.435 basis points. Rates are reviewed annually and calculated to cover estimated costs to administer the funds based on projected assets under management. Single entity accounts in excess of $1 billion, including the CSF, SAIF, and OPERF, make up the majority of assets under management. Rates are projected to be set at the statutory cap of 0.25 basis points for all accounts except SAIF, which will be charged 0.15 basis points. Revenues are expected to total $59.5 million for the biennium.

OST invests excess cash for durations of less than one year in the OSTF. As of June 30, 2021, the net asset value of the OSTF totaled $26.9 billion. This includes the assets of the Local Government Investment Pool (LGIP), 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 OITP began on June 30, 2010 and invests excess cash for durations of up to 10 years. HB 2140 (2013) allowed 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 $301.3 million as of June 30, 2021.

OIC is not subject to legislative budgetary control and, by statute, has the 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 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. OIC expenditures for the management of investments appear in the financial statements of the agency for whom the expenditures were incurred. The PERS Comprehensive Annual Financial Report for fiscal year 2020 shows that investment expenses for OPERF totaled $846.1 million, a decrease of $65.7 million (or 7.2%) from the $911.8 million in investment costs in 2019. Assets under management also declined by $2 billion during this period.

Budget Environment

The Investment Services 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 $126.7 billion, as of June 30, 2021. Institutional investment standards, industry best practices, as well as broad and deliberate diversification efforts have historically produced good results. OPERF's performance record ranks at the top of similar-sized public investment funds. The strategy employed by Investment Services is designed to produce positive returns in bull market conditions, while mitigating portfolio volatility and protecting against sharp or protracted downturns. Over time the portfolio has grown more complex with a greater level of risk to achieve target returns.

After the close of the 2017 legislative session, OIC voted to move the Individual Account Program (IAP), a PERS benefit, to a target-date fund solution beginning January 2, 2018 to better align the investment profile to each individual's anticipated retirement date. 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. Prior to the change, 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. Subsequent legislation in 2018 and 2019 provided IAP members with a choice of investment options into a target-date fund based on risk tolerance rather than age.

Perhaps no actuarial assumption is more financially significant to Oregon's public pension system than the assumed earnings rate, which is currently 7.2%, but will decrease to 6.9% in the 2023-25 biennium. The assumed earnings rate is generally defined as the rate of investment return 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 consider past returns on the PERS portfolio. The National Association of State Retirement Administrators median assumed rate of return across public pension plans is 7%. The OPERF actual 20-year return between 1999-2019 is 6.7%.

Legislatively Adopted Budget
The Investment Services 2021-23 legislatively adopted budget totals $42 million Other Funds and is $2.7 million, or 6.8%, more than the 2019-21 legislatively approved budget and includes 69 positions (68.63 FTE). The budget includes a $198,590 Other Funds increase for the reclassification of five positions approved in the 2020 second special session, as well as $854,682 Other Funds for the establishment of three permanent positions (2.63 FTE) to meet the program's operational needs, which has expanded over the last several biennia. The positions include an in-house Attorney (Principal Executive Manager I) to address legal work that exceed current capacity; a Compliance Analyst (Operations and Policy Analyst 4) to improve compliance reporting, oversight functions, and regulatory filings; and a Portfolio Risk Analyst (Investment Analyst 2) position to support investment officers by reviewing asset allocation and risk management of various asset pools and asset class portfolios.

Legislatively Approved Budget Update
The Investment Services 2021-23 legislatively approved budget is $43.5 million Other Funds, which is a 3.6% increase from the 2021-23 legislatively adopted budget. The increase is due to previously approved employee compensation plan adjustments included in HB 5202, the omnibus budget bill for the 2022 regular session.

Trust Property Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	--	--	8,219,148	8,434,403
Other Funds (NL)	--	--	2,900,000	2,900,000
Total Funds	**--**	**--**	**$11,119,148**	**$11,334,403**
Positions	--	--	19	19
FTE	--	--	17.76	17.76

Program Description
Trust Property Services administers two programs transferred from the Department of State Lands (DSL) to Treasury through SB 454 (2019), effective July 1, 2021. The Unclaimed Property program is a national program that offers consumers a central location to search for unclaimed or abandoned property, including dormant bank accounts, securities, unpaid wages, life insurance payouts, and credit balances. Businesses and institutions that have unclaimed property are required to report and remit the assets to the state, which are held in the Common School Fund (CSF) until claimed by owners or their heirs. Unclaimed Property program staff work with holders of unclaimed property to help them with reporting and remitting property to the state; promote awareness of the program and search for property owners; manage claims; and audit entities to strengthen compliance with unclaimed property laws.

The Estates and Escheated Property program is responsible for handling the affairs of individuals who die without a will or known heirs, including making funeral arrangements, providing property notices, identifying assets and creditors, paying bills, searching for heirs, and reviewing and validating heirship claims. Estates and Escheated Property program staff work closely with medical examiners, attorneys, financial institutions, debt collectors, sheriff departments, and other state agencies. If no heirs come forward 10 years from the data of death, the value of the estates permanently escheats to the Common School Fund.

Revenue Sources and Relationships
Other Funds revenues for the Trust Property Services program are generated through interest earned on unclaimed property and administrative fees. A total of $78.5 million of unclaimed property was received by the state in fiscal year 2020, an increase of 12.5% over the prior year. The value of unclaimed property held in trust within the Common School Fund was approximately $740 million as of the end of fiscal year 2020 and made up over 40% of the $1.7 billion CSF balance. Earnings on unclaimed property received by OST support the costs of

administering the program. Fees charged to cover the direct and indirect costs of administering estates are estimated to total approximately $753,000 in the 2021-23 biennium.

Budget Environment

During fiscal year 2020, the state returned 32.8% of property received from holders, a decrease from the 48.5% returned in 2019 and less than the nationwide target of 50%. Although the rate decreased, property received and the number of claims processed in 2020 (26,551) were significantly higher than the prior year. Additionally, a new fully electronic unclaimed property system (KAPS) was implemented during fiscal year 2020, making it easier to file a claim and increasing the number of claims. Over the last 10 years, the return rate has averaged nearly 42%.

The number of intestate deaths reported to the Estate and Escheated Property program has increased tenfold over the last decade, from 121 in 2010 to 1,284 in 2020. Based on population trends, the number of individuals who die with a will or known heirs is expected to continue growing. Heirs are identified in approximately 70% of cases, but if no heirs are identified or when an heir refuses to take possession, the funds are held for 10 years from the date of death or eight years from the time of judgement before the estate permanently escheats to the CSF. As of June 30, 2020, nearly $6 million was pending permanent escheatment to the CSF.

Legislatively Adopted Budget

The Trust Property Services 2021-23 legislatively adopted budget totals $11.1 million, which includes $8.2 million Other Funds, $2.9 million Nonlimited Other Funds, and 19 positions (17.76 FTE). The budget includes the following adjustments:

- An increase of $7.3 million Other Funds and 27 positions (17.00 FTE) to transfer Trust Property Services from DSL. The transfer includes 14 positions (14.00 FTE) for direct program support; 13 partial positions (3.00 FTE) for indirect shared services support; and services and supplies and capital outlay expenditures totaling $3.6 million. Nonlimited Other Funds of $2.9 million supports payments to states for audits of holders performed in those states that identify Oregon unclaimed property. The increased budget and position authority correspond to a decrease in DSL's budget.
- A net decrease of $154,586 Other Funds resulting from the reclassification of nine positions ($1,586 increase); services and supplies costs for training, expendable property, and rent ($440,935 increase); and the transfer of 12 partial shared services positions (2.75 FTE) to the Administrative Services program ($597,107 decrease).
- An increase of $736,706 Other Funds and four positions (3.51 FTE) to improve Trust Property programs and address increased workloads associated with program growth. The positions include an Estate Coordinator (Program Analyst 1) to respond to intestate cases and administer estates; a Claims Examiner (Public Services Representative 4) to process claims within statutory timelines; an Unclaimed Property Compliance Coordinator (Program Analyst 2) to increase holder compliance; and a Trust Property Executive Specialist (Executive Support Specialist 2) to provide administrative support.
- An increase of $377,693 Other Funds supports rent costs for the new Treasury Resiliency Building.

Legislatively Approved Budget Update

The Trust Property Services 2021-23 legislatively approved budget totals $11.3, which includes $8.4 million Other Funds, $2.9 million Nonlimited Other Funds, and 19 positions (17.76 FTE). The budget is a 1.9% increase from the 2021-23 legislatively adopted budget due to previously approved employee compensation plan adjustments.

Administrative Services

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
Other Funds	27,400,370	29,692,617	33,070,288	33,981,842
Total Funds	**$27,400,370**	**$29,692,617**	**$33,070,288**	**$33,981,842**
Positions	69	65	83	83
FTE	65.46	64.16	75.46	75.46

Program Description
Administrative Services provides overall agency support and leadership through the following programs: Shared Services, Information Technology Services, and the Office of the State Treasurer. Shared Services provides agency-wide support services and includes the Deputy State Treasurer, who provides operational leadership, as well as human resources, internal audit, budget and accounting, procurement, data and records management, facilities, project management, and continuity of operations. Information Technology provides information security, technical services, infrastructure services, and application development for the agency. The Office of the State Treasurer is comprised of the State Treasurer, the Treasurer's Chief of Staff, legislative affairs, communications, policy, constituent services and stakeholder engagement, and executive support staff.

Revenue Sources and Relationships
Administrative Services is financed by a portion of each program's revenues that are internally assessed to support those functions. The cost allocation assessment is based on budgeted amounts and then adjusted for actuals in the fourth quarter of each fiscal year. Revenues are captured in the operational divisions and then transferred to Administrative Services, with the exception of commingled investment fund management fees supporting cost allocation for the Cash Management and Investment Services programs. These revenues are allocated directly to Administrative Services and are projected to total $11.9 million for the biennium. Cost allocation assessment transfers to Administrative Services are anticipated to total $21.2 million.

Budget Environment
State finance continues to become more complex given changes in investing, investment management, cash management, bonding, and relatively recent new program additions, such as the ABLE, ORSB, and Trust Property programs. During the 2013-15 biennium, Treasury transitioned to utilizing the Department of Administrative Services (DAS) Shared Client Services for payroll, accounting, and budget services. The Legislature approved OST's request for a Budget Officer in 2017 and further approved accounting and budget positions in the 2019-21 biennium to return DAS contracted services to Treasury. Review and approval of the State Treasurer's information technology program and security plans by the DAS is not required by statute, but OST continues to build upon an Information Security Management program. The State Treasurer's salary is set by statute ($77,000 per year plus other payroll expenses).

Legislatively Adopted Budget
The Administrative Services 2021-23 legislatively adopted budget of $33.1 million is $5.7 million, or 20.7%, more than the 2019-21 legislatively approved budget and includes 83 positions (75.46 FTE). The budget includes a $472,275 Other Funds increase and three positions (2.50 FTE) for the addition and reclassification of positions approved in the 2020 second special session to transition accounting and budget services from the DAS Shared Client Services to OST. Additional adjustments include:

- $1.4 million Other Funds and 12 positions (6.50 FTE) to transfer the 12 partial Shared Services positions (2.75 FTE) from Trust Property Services ($597,107); reclassify and increase the FTE of the transferred positions by 3.75 to provide sufficient support for the Trust Property programs ($567,296); and add services and supplies for position related costs and rent for Trust Property employees that will be located in the State Lands Building through spring 2022 ($223,649).
- $961,764 Other Funds for rent on the new Treasury Resiliency Building to be completed in spring 2022. Treasury operations and staff currently located in the Labor and Industries Building will relocate to the new facility, as well as Trust Property Programs staff currently in the State Lands Building. Funding supports the estimated final lease rate of $194,242 per month for 15 months in the current biennium. An increase of $144,200 Other Funds supports temporary backup facilities that can be quickly established at alternate locations in a disaster ($48,600); one-time moving costs ($50,600); and an emergency communications tool ($45,000, including one-time costs of $25,000).
- $267,323 Other Funds for a Senior Security Analyst (Information Systems Specialist 8) position (0.92 FTE) originally approved as limited duration in the prior biennium to respond to and prepare for information security threats. This position will continue to support security of OST systems, threat and anomaly detection, and risk analysis.

- $293,121 Other Funds to reclassify four positions and establish a new permanent full-time Research and Strategic Initiatives Director (Operations and Policy Analyst 4) position (0.92 FTE) in the Treasurer's Office to align budgeted positions with actual duties and provide an effective level of staffing. The changes include the upward reclassifications of the Chief of Staff from a Principal Executive Manager F to Principal Executive Manager G; Legislative Director from a Principal Executive Manager C to a Principal Executive Manager E; Legislative and Outreach Coordinator from an Executive Support Specialist 1 to an Operations and Policy Analyst 2; and an Executive Support Specialist 1 to an Administrative Specialist.
- $122,308 Other Funds and one permanent part-time Public Affairs Specialist 1 position (0.46 FTE) to fulfill public records requests more efficiently.

Legislatively Approved Budget Update

The Administrative Services 2021-23 legislatively approved budget totals $34 million Other Funds and 83 positions (75.46 FTE). The budget is a 2.8% increase from the 2021-23 legislatively adopted budget, which is due to previously approved employee compensation plan adjustments included in HB 5202, the omnibus budget bill for the 2022 regular session.

LEGISLATIVE BRANCH

PROGRAM AREA

LEGISLATIVE BRANCH

Analyst: MacDonald

Branch Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	163,131,708	180,390,822	188,007,476	417,469,739
Other Funds	83,275,468	8,853,942	14,012,312	38,309,957
Other Funds (NL)	20,362,133	1,240,880	1,240,880	1,240,880
Total Funds	**$266,769,309**	**$190,485,644**	**$203,260,668**	**$457,020,576**
Positions	573	572	588	590
FTE	459.00	460.85	475.44	476.65

Overview

The Legislative Branch includes members of the Legislative Assembly and their employees, the costs of six 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 Legislative Administration Committee; Legislative Counsel Committee; Legislative Fiscal Office; Legislative Policy and Research Office; Legislative Revenue Office; and the Legislative Equity Office.

The 2021-23 budget adopted for the Legislative Branch totals $203.3 million, including $188 million General Fund and 588 positions (475.44 FTE). The General Fund budget is a 15.2% increase over the 2019-21 legislatively approved General Fund budget. The total funds budget is a 23.8% decrease from the 2019-21 total funds budget, primarily due to the phase-out of Other Funds limitation approved in the prior biennium for the second phase of the Capitol Accessibility, Maintenance, and Safety (CAMS) project ($69 million) and Nonlimited Other Funds provided to refund outstanding general obligation bonds during 2019-21 ($18.8 million).

The adopted budget includes branch-wide adjustments for the 2021-23 budgetary impact of compensation plan changes related to the implementation of a new compensation and classification structure for legislative employees, including adjustments for pay equity. Services and supplies budgets available from 2017-19 General Fund reversions were also reduced to finance budget investments in legislative agencies. Unlike Executive Branch agencies, which must revert unspent General Fund at the close of the biennium, statute allows the Legislative Branch to retain its General Fund reversions from the prior biennium.

Legislatively Approved Budget Update

The legislatively approved budget for legislative agencies totals $457 million, an increase of $253.8 million, or 124.8%, from the legislatively adopted budget for the 2021-23 biennium. General Fund supports 91.3% of the 2021-23 approved budget and represents an increase of 122% from the adopted budget. Budget adjustments in the 2022 session included a $23.2 million reduction from total unexpended 2019-21 General Fund legislative agency appropriations of $24.4 million to partially support the cost of investments, including the third phase of the CAMS project.

Legislative Assembly

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	58,623,567	65,946,868	67,553,243	69,822,774
Other Funds	27,580	147,199	147,199	147,199
Other Funds (NL)	135,000	150,000	150,000	150,000
Total Funds	**$58,786,147**	**$66,244,067**	**$67,850,442**	**$70,119,973**
Positions	335	335	336	336
FTE	253.44	253.02	254.77	254.77

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staff, the leadership and caucus offices, the Secretary of the Senate, the Chief Clerk of the House, session staff, and Senate Executive Appointments. The Legislative Assembly budget also includes funding for the Legislative Equity Office, established in the 2019 session through HB 3377.

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 and public records requests. Other Funds Nonlimited revenues 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 state of Oregon has a citizen legislature that consists of two chambers: the Senate, which has 30 members elected to serve four-year terms, and the House of Representatives, which has 60 members elected to serve two-year terms. 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. Sessions may not exceed 160 days in odd-numbered years and 35 days in even-numbered years. When the Legislature is not in session, 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 need to be addressed prior to the next regular session. Because the Emergency Board has limited authority, fiscal circumstances can require the 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, and Senate and House costs. The remainder of the budget, which covers the costs of leadership offices, the Secretary of the Senate, and the Chief Clerk of the House, as well the Legislative Equity Office, is provided for the normal biennial period.

Legislatively Adopted Budget

The 2021-23 adopted budget for the Legislative Assembly is $67.9 million total funds and 336 positions (254.77 FTE), which is a $9.1 million, or 15.4%, increase from the 2019-21 legislatively approved budget. The budget includes $67.6 million General Fund, 15.2% more than the 2019-21 legislatively approved budget level.

The General Fund growth in the Legislative Assembly budget is primarily due to a $3.4 million increase in personal services expenditures for the compensation plan changes that were implemented in January 2021 as a result of a classification, pay equity, and compensation study that was conducted for legislative agency employees during the 2019-21 biennium. This increase is net of a $2.4 million decrease in the personal services budget to correct an error that occurred between the state's position and budget systems during development of current service level position amounts. Other approved increases include $800,000 General Fund on a one-time basis to replace the LED Message and Voting Displays in the Senate and House Chambers, and $214,184 General Fund to establish a Legislative Director position (1.00 FTE) to support the BIPOC Caucus. General Fund increases were partially offset by a $2.6 million reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

Legislatively Approved Budget Update
The Legislative Assembly's 2021-23 legislatively approved budget of $70.1 million total funds is $2.3 million, or 3.3%, more than the adopted budget. The increase is attributable to previously negotiated statewide employee compensation adjustments. Unexpended 2019-21 General Fund of $6.7 million was also reduced to partially support the third phase of the CAMS project in the Legislative Administration budget.

Legislative Administration

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	62,685,550	70,054,269	74,295,527	299,311,117
Other Funds	76,585,190	1,840,725	6,837,286	30,919,580
Other Funds (NL)	19,600,563	458,476	458,476	458,476
Total Funds	**$158,871,303**	**$72,353,470**	**$81,591,289**	**$330,689,173**
Positions	79	78	80	81
FTE	74.42	75.46	76.96	77.50

Program Description
The Legislative Administration Committee (LAC) appoints a Legislative Administrator to direct and manage the administrative operations and support systems for the Legislative Assembly and Legislative Branch agencies. Nonpartisan services include: support services for legislators and their staff; information systems and technology support; building operations and facilities maintenance for the State Capitol; accounting, payroll, and personnel functions; project management; and public information. LAC also works with the Oregon State Police to provide a presence for the State Capitol building.

Revenue Sources and Relationships
General Fund supports most of LAC's ongoing expenditures. Other Funds revenue is generated 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 and 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 are deposited in the State Capitol Operating Account which is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. Proceeds from the issuance of general obligation bonds approved for capital projects administered by LAC, including the CAMS and Document Publishing and Management System (DPMS) projects, are also budgeted as Other Funds revenues. 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 CAMS project was initially approved in 2016 as a scaled down version of the Oregon State Capitol Renovation project, involving some components of the renovation project with the major exception of the seismic retrofitting of the Capitol building. Capital improvements included improving handicap accessibility to the building, enhancing security by relocating the Oregon State Police Capitol Office from the basement to the first floor, and making other necessary safety, mechanical, and maintenance improvements. Funding for the second phase the CAMS project was approved during the 2020 second special session to further capital improvements, including seismic upgrades to the House and Senate wings, seismic and other upgrades to the parking garage connectors, and accessibility improvements to the south entrance. Construction activity on the second phase of the project will continue in the 2021-23 biennium. The variability in the Other Funds budget over the last several biennia is largely due to the CAMS project.

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 2021-23 adopted budget for the Legislative Administration Committee is $81.6 million total funds and 80 positions (76.96 FTE), which is a $77.3 million, or 48.6%, decrease from the 2019-21 legislatively approved budget. The decrease is primarily due to the phase-out of Other Funds limitation approved in the prior biennium for the second phase of the CAMS project ($69 million) and Nonlimited Other Funds provided to refund outstanding general obligation bonds during 2019-21 ($18.8 million). The budget includes $74.3 million General Fund, which consists of $47.4 million to support the agency and $26.9 million for debt service and represents an 18.5% increase over the 2019-21 legislatively approved budget level. General Fund growth is mainly due to a $10.2 million increase in debt service for payments on bonds issued in the prior biennium. The LAC budget also includes the following:

- Other Funds limitation of $4.3 million for general obligation bond proceeds approved to finance the DPMS project and associated costs of issuance. General Fund of $663,587 was also provided for debt service on the bonds in the 2021-23 biennium.
- $2.2 million General Fund for security improvements to the State Capitol Building.
- One-time General Fund to replace the Capitol Wi-Fi system ($700,831); update the Senate and House chamber cameras ($300,000); and make accessibility and ADA accommodation technology and service improvements ($300,000).
- $372,537 General Fund to establish an Application Developer position (0.75 FTE) in Information Services and a Labor Relations position (0.75 FTE) in Employee Services.
- $354,150 General Fund and $59,500 Other Funds for the 2021-23 budgetary impact of compensation plan changes related to the implementation of a new compensation and classification structure for legislative employees, including adjustments for pay equity.
- $200,000 General Fund for employment related Department of Justice costs.

General Fund increases were offset by an $8.3 million reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

Legislatively Approved Budget Update

Legislative Administration's 2021-23 legislatively approved budget of $330.7 million total funds is $249.1 million, or 305.3%, more than the adopted budget. The significant growth in the LAC approved budget is primarily due to an increase of $242.7 million for the third phase of the CAMS project to further capital improvements to the State Capitol Building. Costs are financed through a combination of general obligation bond proceeds ($19.6 million) and General Fund ($223.1 million) resources. This phase of the project includes upgrades to the 1938 building for improved functionality, fire protection systems, seismic retrofits, roof repairs, security upgrades, information technology and media modernization, and upgrades to the remaining mechanical, electrical, and plumbing equipment not addressed in the first two phases. The approved budget also increases Other Funds expenditure limitation by $4.2 million for the balance of bond proceeds issued in the prior biennium for DPMS that will be expended during 2021-23.

Increases also include statewide employee compensation adjustments ($868,985) and the carryforward of unexpended General Fund appropriations from the prior biennium ($1.1 million). Total unexpended 2019-21 General Fund of $10.9 million was reduced by $9.8 million to partially support the third phase of the CAMS project. The remaining balance supported the addition of a permanent full-time Security manager position (0.54 FTE) totaling $123,416 and additional security projects and costs of $500,000 in the 2021-23 biennium.

Legislative Counsel

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	16,766,693	18,510,968	18,148,985	19,023,789
Other Funds	2,066,532	2,007,900	2,145,209	2,206,065
Other Funds (NL)	626,570	632,404	632,404	632,404
Total Funds	**$19,459,795**	**$21,151,272**	**$20,926,598**	**$21,862,258**
Positions	62	62	64	64
FTE	55.08	55.08	57.00	57.00

Program Description

Overseen by the Legislative Counsel Committee, the Office of the Legislative Counsel (LC) provides legal and publication services to the Legislative Assembly and its members, as well as other agencies of state government. LC drafts measures and amendments for legislators, legislative committees, and state agencies; provides legal opinions, legal advice, and other legal services to legislators and legislative committees; analyzes measures for conflicts and drafts conflict amendments; and prepares indexes and tables for all measures introduced during a legislative session. Every two years following each session, LC 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 approximately 85% of LC's expenditures. Other Funds revenues are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other specialty publications. A portion of *ORS* publication sales income is expended as limited Other Funds and used to defray that part of the agency's expenses related to publication editing. The balance of the income is expended as Nonlimited Other Funds within the *ORS* Publications Program. Receipts from the sales of *Oregon Laws* are expended as Nonlimited Other Funds in the Legislative Publications Program. LC has statutory authority to charge state agencies and other entities for drafting legislation and has done so since 2001-03.

Budget Environment

The number of bills and amendments drafted fluctuates from session to session, but overall trends are fairly stable. LC received 4,207 draft requests and produced 4,083 final drafts for the 2021 session, as compared to 4,881 final drafts in 2019 and 3,821 in 2017. In 2021, LC also drafted 2,980 amendments and produced 219 legal opinions and 12 research requests during 2019-21. Increases in draft requests can compound staff workload levels as these bills are introduced, amended, and finalized. LC workload is also impacted by the complexity of drafting requests, scope of annual sessions, frequency of special sessions, and increased demand for shorter turnaround times. During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and assist with workload issues. However, the agency has reduced 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 free or low-cost information available on the internet. 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; and labor, employment, and workers' compensation laws. If Other Funds receipts were to decline, additional General Fund support may be needed to support the *ORS* publication.

LC is reliant on information technology to provide timely and accurate services and is currently working with LAC Information Services on the implementation of the Document Publishing and Management System project. This system is a significant upgrade in the technology used for bill and amendment drafting and legislative publications.

<u>Legislatively Adopted Budget</u>
The 2021-23 adopted budget for Legislative Counsel is $20.9 million total funds and 64 positions (57.00 FTE), which is a $1.5 million, or 7.5%, increase from the 2019-21 legislatively approved budget. General Fund of $18.1 million is 8.2% more than the 2019-21 legislatively approved budget level. The LC budget includes the following adjustments:
- $928,400 General Fund and $90,200 Other Funds for the 2021-23 budgetary impact of compensation plan changes related to the implementation of a new compensation and classification structure for legislative employees, including adjustments for pay equity.
- $318,034 General Fund for the establishment of a permanent Deputy Publication Services Manager position (1.00 FTE) to meet expanded management responsibilities.
- $132,808 General Fund and $47,109 Other Funds to reclassify an existing part-time Accountant 1 position to a full-time Publications Account Specialist (0.50 FTE) that is equally funded with General Fund and Other Funds.
- $61,172 General Fund to establish a permanent full-time Publications Specialist 1 (0.42 FTE) position to meet publication service workload demands.

General Fund increases were offset by a $1.7 million reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

<u>Legislatively Approved Budget Update</u>
Legislative Counsel's 2021-23 legislatively approved budget of $21.9 million total funds is $935,660, or 4.5%, more than the adopted budget. The increase is attributable to statewide employee compensation adjustments ($782,624) and the carryforward of unexpended General Fund appropriations from the prior biennium ($153,036). Total unexpended 2019-21 General Fund of $1.9 million was reduced by $1.8 million to partially support the third phase of the CAMS project in the Legislative Administration budget. The remaining balance is anticipated to support additional publication services staff overtime costs.

Legislative Fiscal Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	8,395,274	8,694,928	8,375,824	8,629,206
Other Funds	4,588,864	4,850,514	4,875,014	5,029,509
Total Funds	**$12,984,138**	**$13,545,442**	**$13,250,838**	**$13,658,715**
Positions	27	27	27	27
FTE	25.77	27.00	27.00	27.00

Program Description
The Legislative Fiscal Office (LFO) is a non-partisan, legislative service agency created by statute in 1959. LFO 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 until the 2013 Legislative Assembly approved Other Funds to support agency operations. The source of revenue is a portion of the Central Government Service Charge (CGSC) assessment, which assesses agencies that have Other Funded positions to recover the actual costs of the Legislative Assembly, Legislative Fiscal Office, Legislative Counsel Committee, and Governor's Office. In the past, all CGSC revenues were transferred to the General Fund. However, as a portion of the CGSC formula is driven by costs associated with the Legislative Fiscal Office, the Legislature decided to target funds directly to the Office.

Budget Environment
As with other legislative service agencies, the work of LFO staff 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; number and complexity of requests to the interim Joint Committee on Ways and Means and the Emergency Board; and 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. The significant influx of federal resources available to the state through the Coronavirus aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act, and American Rescue Plan Act has also resulted in increased demand on the agency, both in the interim and during session.

Legislatively Adopted Budget
The 2021-23 adopted budget for the Legislative Fiscal Office is $13.3 million total funds and 27 positions (27.00 FTE), which is a $266,700, or 2.1%, increase from the 2019-21 legislatively approved budget. The budget includes $8.4 million General Fund, which represents a net 0.2% decrease compared to the 2019-21 legislatively approved

budget. The General Fund decrease is mostly due to a $336,042 reduction in services and supplies expenditures available from 2017-19 General Fund reversions. The budget also includes an increase of $24,500 General Fund and $24,500 Other Funds for the 2021-23 budgetary impact of compensation plan changes related to the implementation of a new compensation and classification structure for legislative employees, including adjustments for pay equity.

Legislatively Approved Budget Update
The Legislative Fiscal Office's 2021-23 legislatively approved budget of $13.7 million total funds is $407,877, or 3.1%, more than the adopted budget. The increase is attributable to statewide employee compensation adjustments. Unexpended 2019-21 General Fund of $2.9 million was also reduced to partially support the third phase of the CAMS project in the Legislative Administration budget.

Legislative Policy and Research Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	12,558,369	12,930,532	15,350,800	16,233,694
Total Funds	**$12,558,369**	**$12,930,532**	**$15,350,800**	**$16,233,694**
Positions	61	61	71	72
FTE	41.29	41.29	49.96	50.63

Program Description
The Legislative Policy and Research Office (LPRO) was created by the Legislative Assembly in SB 1569 (2016) and provides professional, nonpartisan research; issue analysis; and committee management services for the Legislature. Prior to the establishment of a separate legislative agency, the services provided by LPRO were included within Legislative Administration. LPRO provides staff support for legislative committees, assisting committee chairs with meeting organization and administration; conducts measure analysis; and coordinates with other legislative offices on bill drafts and amendments, and fiscal and revenue impact statements. The Office also produces committee meeting records and develops publications that serve as resources for legislators, legislative staff, agencies, and the public.

Revenue Sources and Relationships
The Legislative Policy and Research Office is entirely supported by General Fund.

Budget Environment
As with other legislative service agencies, 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. During the 2019-21 biennium, LPRO staffed 41 legislative committees, four task forces, and 28 workgroups. LPRO also responded to more than 80 research requests.

Legislatively Adopted Budget
The 2021-23 adopted budget for the Legislative Policy and Research Office is $15.4 million General Fund and 71 positions (49.96 FTE), which is a $2.8 million, or 22.2%, increase from the 2019-21 legislatively approved budget. The General Fund growth in the LPRO budget is due to investments to support accessibility in the legislative process, provide adequate staffing for a growing number of committees, increase LPRO's research capacity, continue funding for redistricting efforts, and implement staffing changes related to the classification, pay equity, and compensation study conducted for legislative agency employees during the 2019-21 biennium. Personal services expenditures were increased by $749,000 General Fund and one position (1.00 FTE) for the compensation plan changes that were implemented in January 2021. As part of these changes, a second Deputy Director focused on policy research was created through the abolishment of existing Legislative Analyst 3 position. Additionally,

two Legislative Analyst 1 positions were abolished to create two Senior Committee Assistants and a Committee Assistant.

Specific General Fund investments include:

- $1.2 million for contracted services to improve access for the deaf and hard of hearing and establishment of an ADA/ASL Coordinator position (0.92 FTE).
- $454,530 to support language access through the establishment of two permanent positions (2.00 FTE), including a Language Access Coordinator to develop and implement a plan to provide language access services and a Spanish Language Interpreter to provide in-house Spanish language interpretation and translation.
- $407,862 for the establishment of two permanent Research Analyst positions (1.50 FTE) to provide additional capacity and research-specific expertise.
- $289,739 to establish a permanent GIS Analyst position (1.00 FTE) that will support redistricting efforts and ongoing GIS mapping related to policy issues and information requests. One-time General Fund of $52,290 was also provided for costs related to redistricting.
- $259,213 for the addition of two permanent committee positions (1.50 FTE), bringing ongoing committee staff to four Senior Committee Assistants and seven Committee Assistants that will support session and interim work.
- $160,810 for the establishment of an LPRO Fellowship position (0.75 FTE) that will function similar to a graduate student internship and offer exposure to the legislative process, while providing an opportunity for early-career candidates and pipeline for Legislative Analysts.
- $135,575 for ongoing employee training expenditures.
- $16,100 one-time funding for the estimated costs of compensating non-legislative members of the Joint Task Force on Addressing Racial Disparities in Home Ownership.

General Fund increases were partially offset by a $1.2 million reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

Legislatively Approved Budget Update

The Legislative Policy and Research Office's 2021-23 legislatively approved budget of $16.2 million is $882,894, or 5.8%, more than the adopted budget. In addition to an increase of $603,535 for statewide employee compensation adjustments, SB 1518 (2022) included $279,359 General Fund and one limited duration Senior Legislative Analyst position (0.67 FTE) to support the 27-member Task Force on Resilient Efficient Buildings with subject matter expertise, organizational support, and contracted services. Unexpended 2019-21 General Fund of $1.5 million was also reduced to partially support the third phase of the CAMS project in the Legislative Administration budget.

Legislative Revenue Office

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	3,239,360	3,404,838	3,395,264	3,534,962
Total Funds	**$3,239,360**	**$3,404,838**	**$3,395,264**	**$3,534,962**
Positions	7	7	7	7
FTE	7.00	7.00	7.00	7.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees and Joint Committee on Tax Expenditures 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. LRO 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 entirely supported by General Fund.

Budget Environment
As with other legislative service agencies, 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 2021-23 adopted budget for the Legislative Revenue Office is $3.4 million General Fund and 7 positions (7.00 FTE), which is a $155,904, or 4.8%, increase from the 2019-21 legislatively approved budget. The following General Fund increases were approved:

- $244,000 for the 2021-23 budgetary impact of compensation plan changes related to the implementation of a new compensation and classification structure for legislative employees, including adjustments for pay equity.
- $88,500 for specialty software used to model large scale changes to Oregon's economy and tax system. Costs to update existing software or move to a new software solution were approved as one-time, with ongoing licensing costs for a new software solution anticipated to be $36,000 per biennium.

General Fund increases were offset by an $336,438 reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

Legislatively Approved Budget Update
The Legislative Revenue Office's 2021-23 legislatively approved budget of $3.5 million is $139,698, or 4.1%, more than the adopted budget. The increase is attributable to statewide employee compensation adjustments. Unexpended 2019-21 General Fund of $245,265 was also reduced to partially support the third phase of the CAMS project in the Legislative Administration budget.

Commission on Indian Services

	2019-21 Legislatively Approved	**2021-23 Current Service Level**	**2021-23 Legislatively Adopted**	**2021-23 Legislatively Approved**
General Fund	862,895	848,419	887,833	914,197
Other Funds	7,302	7,604	7,604	7,604
Total Funds	**$870,197**	**$856,023**	**$895,437**	**$921,801**
Positions	2	2	3	3
FTE	2.00	2.00	2.75	2.75

Program Description
The Legislative Commission on Indian Services (LCIS) 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. LCIS fosters communication between the state and tribal governments, and among tribes to build relationships and address issues and shared areas of concern. 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. Commission membership includes representatives from each of Oregon's nine federally recognized tribal groups, as well as

two senators and two state representatives. An additional non-voting member associated with Indian health matters may also be appointed by the Commission.

Various statutes require the Commission to 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.

<u>Revenue Sources and Relationships</u>
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.

<u>Budget Environment</u>
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 to avoid unnecessary court disputes and highlight shared interests.

The Commission reports that governmental (federal, state, and local) and non-governmental entities increasingly rely 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.

<u>Legislatively Adopted Budget</u>
The 2021-23 adopted budget for the Commission on Indian Services is $895,437 total funds and three positions (2.75 FTE), which is a $25,240, or 2.9%, increase from the 2019-21 legislatively approved budget. General Fund makes up over 99% of the Commission's budget. The budget includes an increase of $178,445 General Fund for the establishment of a permanent full-time position (0.75 FTE) to address the Commission's increased responsibilities since its creation in 1975. The new position will enhance statutorily required government-to-government relations, work with state agency and tribal cluster representatives, assist the Oregon Tribal Cultural Items Task Force, and provide legislative, policy, and research support. This increase was partially offset by a $110,143 reduction in services and supplies expenditures available from 2017-19 General Fund reversions.

<u>Legislatively Approved Budget Update</u>
The Commission on Indian Service's 2021-23 legislatively approved budget of $921,801 total funds is $26,364, or 2.9%, more than the adopted budget. The increase is attributable to statewide employee compensation adjustments. Unexpended 2019-21 General Fund of $256,973 was also reduced to partially support the third phase of the CAMS project in the Legislative Administration budget.

EMERGENCY BOARD

EMERGENCY BOARD

Analyst: Beitel

Totals

	2019-21 Legislatively Approved	2021-23 Current Service Level	2021-23 Legislatively Adopted	2021-23 Legislatively Approved
General Fund	--	50,000,000	761,297,482	469,778,807
Total Funds	**--**	**50,000,000**	**761,297,482**	**469,778,807**

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)

	2017-19 Adopted	2017-19 Jan-19	2019-21 Adopted	2019-21 Jan-21	2021-23 Adopted	2021-23 Approved
General Purpose	50.0	57.3	75.0	88.5	50.0	50.0
Salary and Benefit Adjustment	110.0	--	220.0	--	218.0	0.0
Special Purpose Appropriations	18.8	--	45.8	219.1	493.3	419.8
Total Emergency Fund	**$178.8**	**$57.3**	**$340.8**	**$307.6**	**$761.3**	**$469.8**

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 timing is typical since the full effect of 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 period and starts meeting on a quarterly basis following the even-year session.

During the even-year session, the Legislature often takes actions affecting the Emergency Fund, including supplementing the legislatively adopted general purpose Emergency Fund, distributing existing special purpose appropriations to the identified agencies, or creating 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 help rebalance that biennium's budget and/or use as part of the next biennium's budget. This disappropriation generally occurs within the first two months of the longer odd-year session. For example, the 2019-21 Emergency Fund's balance was $307.6 million as of January 2021. These dollars were used to rebalance the 2019-21 budget in HB 5042, which was signed into law on April 15, 2021. Since the Emergency Fund balance exceeded rebalance needs, $21.5 million General Fund also became available to use as part of the 2021-23 legislatively adopted budget.

Budget Environment

Historically, the typical general purpose appropriation 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 particular federal funding streams. The 2019-21 legislatively adopted budget included a general purpose appropriation of $75 million. However, this amount was increased twice during 2020. First, in August 2020 (SB 5723, 2020 second special session) $200 million General Fund was appropriated to the Emergency Fund to help address potential needs related to the COVID-19 pandemic, potential costs related to wildfires, and economic uncertainty. Second, in December 2020 (SB 5731, 2020 third special session) $100 million was appropriated to the Emergency Fund for general purposes and to ensure some level of fund capacity until the Legislature was able to start addressing budget issues during the 2021 regular legislative session. The 2021-23 legislatively adopted budget included a general purpose appropriation of $50 million to address emergency costs arising during biennium.

The actual cost of salary and benefit increases has traditionally exceeded the amounts appropriated to the Emergency Board for this purpose by large sums. However, for the 2013-15, 2015-17, 2017-19, and 2019-21 biennial budgets, the Legislature included special purpose appropriations to cover a significant portion of the costs of compensation and benefit adjustments ($99.4 million, $130.7 million, $110 million, and $220 million, respectively). The 2019-21 amount covered approximately 97% of the statewide General Fund costs for that biennium. At $218 million, the 2021-23 amount covered 99% of General Fund costs related to compensation, benefit, and pension obligation bond cost adjustments.

Legislatively Adopted Budget

The 2021-23 legislatively adopted budget for the Emergency Board includes a $50 million general purpose appropriation. Within this amount, a reservation of $650,000 was established for potential voter pamphlet costs in excess of funding provided in the Secretary of State's adopted budget. In addition, the following special purpose appropriations totaling $711.3 million were approved:

- $198 million for state employee compensation changes
- $20 million for non-state employee compensation changes
- $150 million for natural disaster prevention, preparedness, response, and recovery activities
- $100 million tied to a General Fund holdback in the Public Defense Services Commission's budget
- $55 million for caseload costs or other budget challenges faced by the Oregon Health Authority or the Department of Human Services
- $49 million for behavioral health system transformation and realignment activities led by the Oregon Health Authority
- $30 million for the Oregon Health Authority to implement the Oregon Essential Workforce Health Care Program
- $20 million for maintaining appropriate staffing levels at the Oregon State Hospital
- $19 million for dental rates in medical assistance programs through the Oregon Health Authority
- $15.9 million to assist the Department of Human Services with truing up funding for positions engaged in child welfare service delivery
- $14 million for fire protection expenses incurred by the Department of Forestry
- $10 million for family treatment court programs
- $10 million for a Transforming Justice Initiative to help reshape Oregon's public safety system
- $10 million for the Housing and Community Services Department for a grant program supporting affordable rental housing projects co-located with child care or early learning centers

- $5.1 million for establishing the new Department of Early Learning and Care
- $2.5 million for the Oregon Judicial Department to implement pretrial release modifications
- $1.8 million for preparing the Office of the State Fire Marshal to operate as a separate state agency
- $1 million to match donations made to the Oregon Conservation and Recreation Fund

<u>Legislatively Approved Budget Update</u>

The 2021-23 legislatively approved budget for the Emergency Board after actions taken during the 2021 second special legislative session and the 2022 regular legislative session maintains a $50 million general purpose appropriation, plus special purpose appropriations totaling $419.8 million. The special purpose appropriation level reflects the following actions eliminating or reducing existing special purpose appropriations, along with establishing new ones:

- Eliminated the special purpose appropriation for state employee compensation changes of $198 million and made General Fund appropriations to various state agencies of $199.8 million for employee compensation changes and related adjustments.
- Eliminated the $20 million special purpose appropriation for compensation changes driven by collective bargaining costs of workers who are not state employees and added it to the Department of Human Services' budget for bargained compensation increases.
- Eliminated the $19 million special purpose appropriation for medical assistance program dental rates and added it to the Oregon Health Authority budget for that purpose.
- Reduced the $10 million special purpose appropriation for family treatment court programs by $2.1 million; the funding was appropriated to the Oregon Judicial Department, Public Defense Services Commission, and the Department of Human Services.
- Eliminated the $2.5 million special purpose appropriation for implementation of pretrial release modifications authorized under SB 48 (2021) and provided the funding to the Oregon Judicial Department for that purpose.
- Reduced the $14 million special purpose appropriation made for fire severity resources by $6.1 million, which corresponded to a General Fund increase for the Department of Forestry in the same amount, to enable the agency to pay severity resource expenses incurred for the 2021 forest fire season. The special purpose appropriation balance of $7.9 million remains available for future needs in 2021-23.
- Eliminated the $1 million special purpose appropriation for purposes of the Oregon Conservation and Recreation Fund, which helped support a $5 million General Fund deposit into the Fund.
- Eliminated the $1.8 million special purpose appropriation created for preparing the Office of the State Fire Marshal to become a separate state agency on July 1, 2023; the funding was provided to the Office and will support 19 positions (5.50 FTE) in the new agency.
- Eliminated the $15.9 million special purpose appropriation for addressing child welfare-related position needs in the Department of Human Services and appropriated the corresponding amount of General Fund to the Department for this purpose.
- Eliminated the $49 million special purpose appropriation for behavioral health system transformation to support system investments and planned rate increases.
- Reduced the $20 million special purpose appropriation made for addressing staffing issues at the Oregon State Hospital; $10.8 million was provided to the Oregon Health Authority to add staff capacity, with the balance of $9.2 million available for future allocation.
- Reduced the $5.1 million special purpose appropriation made for the creation of the Department of Early Learning and Care by $3.2 million. This amount was appropriated to the Department of Education to fund 34 positions (12.38 FTE) and other start-up costs associated with the new agency; the balance of $1.9 million remains available for allocation later in the biennium.
- Reduced the $150 million special purpose appropriation for the natural disaster prevention, preparedness, response, and recovery activities by $123.7 million to help pay for drought resiliency and preparedness efforts. This leaves the balance at $26.3 million for future allocation.
- Increased the special purpose appropriation for allocation to the Oregon Health Authority or the Department of Human Services for caseload costs or other budget issues that the agencies are unable to mitigate by $45 million, resulting in a total balance of $100 million.

- Established a special purpose appropriation in the amount of $5.1 million for allocation to the Department of Justice, Division of Child Support, for the Child Support Enforcement Automated System.
- Established a special purpose appropriation in the amount of $19 million to be allocated to the Higher Education Coordinating Commission for an Oregon Tribal Student Grant program.
- Established a $10 million special purpose appropriation to be allocated for establishing a grant, loan or lending program to provide financial assistance to employers to mitigate the costs associated with compliance with the overtime compensation requirements under section 2 of HB 4002 (2022).
- Established a special purpose appropriation of $50 million for allocation to the Department of Forestry for cash flow needs. The funding is for anticipated operational needs of the agency that may be compromised due to the financing of emergency firefighting costs while awaiting reimbursement of those costs from other sources.
- Established a $42.5 million special purpose appropriation for increasing behavioral health provider rates by an average of 30%.

If the amounts in the special purpose appropriations are not allocated by the Emergency Board by December 1, 2022, the remaining amounts become available to the Board for any legal use (including the original purpose).