ANALYSIS OF

GOVERNOR'S 2003-05 BUDGET

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

The Legislative Fiscal Office staff has prepared the enclosed *Analysis of the Governor's 2003-05 Budget*. The analysis provides a detailed description by program area and agency of the Governor's initial recommended budget. Despite the changes that have occurred to Oregon's budget situation since the release of the Governor's budget at the beginning of session, we believe this analysis continues to provide valuable information on agency programs and funding levels.

In preparing this analysis, the Legislative Fiscal Office staff have again demonstrated their commitment to public service and the legislative process. Their in-depth knowledge, dedication, and professionalism are evident throughout the pages that follow.

We hope you find this resource useful and invite you to call the Legislative Fiscal Office if you have any questions. A summary analysis of the Governor's 2003-05 budget was previously published by LFO in February. After the close of session, both the summary and detailed analyses will be updated to reflect the decisions made by the Legislature in the 2003-05 adopted budget.

Respectfully submitted,

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PROGRAM AREAS

EDUCATION

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

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	435,653,740	474,528,195	387,037,480	413,691,803
Other Funds	10,691,850	11,370,695	14,040,971	12,835,967
Federal Funds	108,248,320	119,092,725	148,333,991	126,858,664
Federal Funds Nonlimited	0	0	0	2,339,105
Total	**554,593,910**	**604,991,615**	**549,412,442**	**555,725,539**
FTE	43.58	43.40	43.40	46.70

The Department of Community Colleges and Workforce Development's (CCWD) mission is to provide leadership and technical assistance to, and to coordinate the work of, Oregon's seventeen community colleges. The agency's role has expanded as a result of the increasing level of state support to community colleges. The agency has responsibility for monitoring the programs, services, outcomes, and effectiveness of local community colleges and for reporting to the Legislative Assembly. Direct state support to community colleges is also funded in the Department's budget, primarily through the Community College Support Fund (CCSF). The agency also coordinates and provides statewide administration of the federally-funded Workforce Investment Act (WIA Title IB) , Adult Education and Family Literacy (WIA Title II), and Even Start Family Literacy programs. The Department also houses the Oregon Youth Conservation Corps (OYCC).

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

Revenue Sources and Relationships

The budget projects Federal Fund receipts of $129 million in the 2003-05 biennium. These include $112 million for WIA Title IB programs, and $17 million for Adult Education and Family Literacy (WIA Title II) programs. Federal Funds from these two programs are projected to be up approximately 4.8% from the prior biennium level, although projecting the level of these revenues is difficult.

The budget also projects $12.7 million of Other Funds revenue in the 2003-05 biennium. Most of these Other Funds are Carl D. Perkins funds from the federal government, which are characterized as Other Funds because they are transferred to CCWD through the Department of Education. Carl D. Perkins revenues are projected at $9.4 million, and are used by the Department and community colleges to support development of Professional/Technical programs. The remaining Other Funds include $1.8 million of Amusement Device Tax and other receipts of the Oregon Youth Conservation Corps, and $1.5 million from fees for services in the General Educational Development (GED) and Tracking Outcomes for Programs and Students (TOPS) System programs.

CCWD – Office Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,120,096	2,659,258	2,388,489	2,316,766
Other Funds	1,691,677	1,680,690	1,753,866	2,037,311
Federal Funds	5,237,284	5,907,538	6,146,629	6,943,775
Total	**9,049,057**	**10,247,486**	**10,288,984**	**11,297,852**
FTE	38.58	40.40	40.40	43.70

Program Description

Office Operations funds the administration of the programs that the Department houses, with the exception of the Oregon Youth Conservation Corps program (its administrative costs are included in the separate OYCC program area). The Department's administrative functions are to provide leadership and accountability for statewide policy development, and to provide assistance with local implementation. The agency works directly with Oregon's seventeen community colleges. The program manages the State Support to Community Colleges budget, and provides leadership in the development and delivery of college transfer and professional/technical course work, adult literacy education, and workforce development services. The agency also co-administers Carl D. Perkins Professional/Technical programs with the Department of Education, and the staff provides GED testing, Basic Adult Skills Inventory testing, statewide adult basic education programming, and course approvals.

Revenue Sources and Relationships

Other Funds in the Office Operations program include: fees from applicants for the General Education Development and Tracking Outcomes for Programs and Students System tests; charges to community colleges for the cost of copying Adult Basic Education curriculum materials and summer conference fees; and funds from the Department of Education for Carl D. Perkins professional/technical program support. The Federal Funds dollars are those retained for administration of the federally-funded Workforce Investment Act (WIA Title IB), Adult Education and Family Literacy (WIA Title II), and Even Start Family Literacy programs. The agency retains 17.5% of Title II funds for administration and staff development activities.

Governor's Budget

The Governor's budget biennializes General Fund reductions made to the Office Operations budget during the 2002 special legislative reductions. The budget allows these reductions to be taken without loss of employment. Instead, a position that had been funded by General Fund will be switched to Federal Fund support, and the person's responsibilities will be changed to support the federally-funded programs. General Fund reductions in support for services and supplies, except for some rent costs, are not replaced by Federal Funds.

The budget adds four permanent, full-time positions to be funded with Federal or Other Funds. Three positions will assist the Department in carrying out responsibilities under the Workforce Investment Act. The agency established these three positions on a limited-duration basis during the 2001-03 biennium. The fourth position would work on development of Professional/Technical programs and will be financed with Carl Perkins (Other) Funds. The budget also eliminates one position (0.70 FTE) and service and supply expenditures related to administration of the Even Start Family Literacy program. This program is moved to the Department of Education to better conform with federal program changes adopted in the No Child Left Behind Act.

CCWD – State Support to Community Colleges

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	428,383,836	467,068,191	379,889,721	407,668,252
Other Funds	1,637,066	1,782,400	1,782,400	0
Total	**430,020,902**	**468,850,591**	**381,672,121**	**407,668,252**
FTE	0.00	0.00	0.00	0.00

Program Description

All General Fund in the State Support to Community Colleges program is transferred to the state's seventeen community colleges. All but 1% of these funds are budgeted for distribution to colleges through the Community College Support Fund (CCSF). CCSF moneys are distributed to community colleges primarily on an adjusted enrollment basis. The remaining 1% supports contracted out-of-district reimbursements, distance learning programs, and a recent annexation by the Mt. Hood Community College District. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Professional/Technical, Developmental Education, and Self-Improvement courses. Lower Division Collegiate courses parallel the offerings of the first two years of four-year institutions and carry regular college credit. Professional/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. Self-Improvement courses aid in student self-development but do not lead to a degree.

Revenue Sources and Relationships

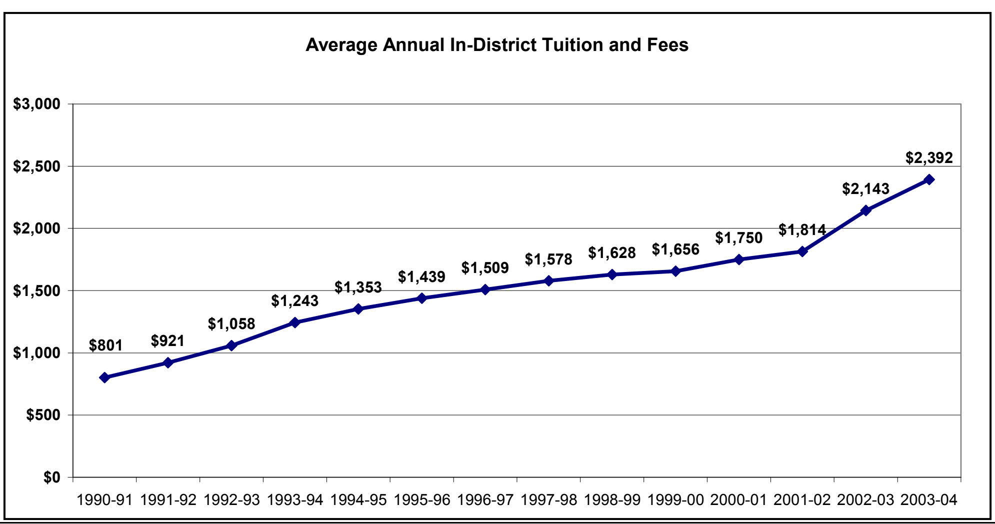
State support to community colleges is now exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also required that the state distribute a portion of the funds to the CCSF. The revenues did not appear in the state budget when community colleges collected the tax, since community college districts are not state agencies, but after 1999 they did. This revenue was distributed as Other Funds. All of the Other Funds in this program area are financed from this source, which sunset during the 2001-03 biennium. Now again, all support comes from the General Fund.

Note that community colleges also collect property taxes to fund their operations. These taxes do not flow through the agency budget, however, and are not included in any budget figures identified here. Approximately $194 million of property tax collections are projected for community colleges in the 2003-05 biennium, providing approximately 23% of college operating revenue. Tuition and fees, which are also not included in the state agency budget, are projected to provide $265 million (or 31%) of college operating revenues.

Budget Environment

In the 2001 Regular Session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state's General Fund revenue shortfall. The Legislature reduced support by 3% in the 2002 Second Special Session. In the 2002 Third Special Session, the final 2001-03 biennium CCSF distribution was "shifted" to the 2003-05 biennium. This allowed the state to reduce 2001-03 expenditures by $56 million. At the same time the Legislature enacted legislation to allow colleges to accrue the shifted payment to their 2002-03 fiscal year revenues. The impact of this authority was to eliminate the need for colleges to reduce 2002-03 expenditures, except to offset interest costs they incurred as a result of the payment delay. During the 2002 Fifth Special Session, however, CCSF support was reduced an additional $17.1 million. The combined effect of these special sessions reductions was to reduce 2001-03 biennium General Fund support by an effective 7.8%, and to leave funding levels back essentially at 1999-01 biennium levels.

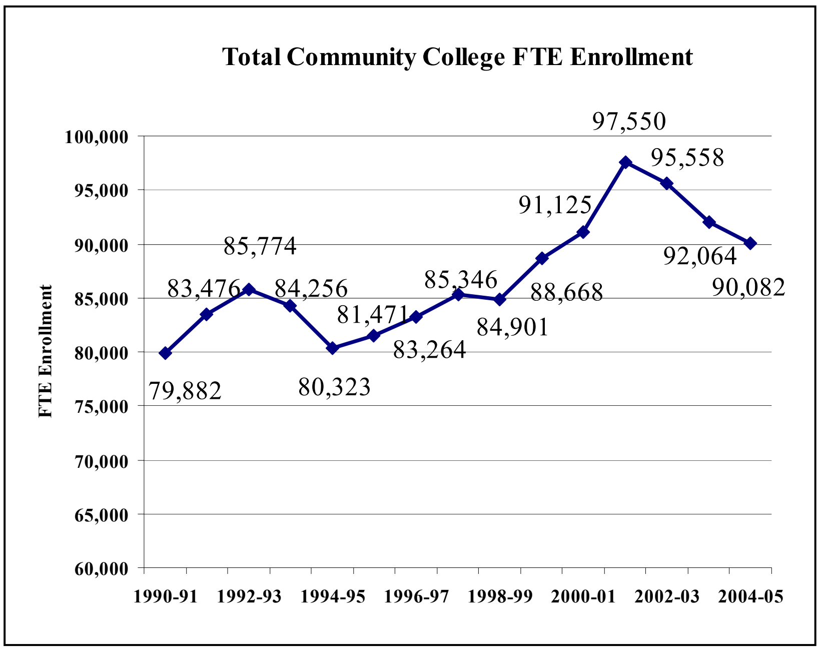
Community college services are affected by changes in the economy, community college tuition costs, and in the funding of and accessibility to the Oregon University System. An estimated 30% of Oregon class of 2001 high school graduates went on to attend an Oregon community college in 2002. This was higher than the 25% who enrolled in the Oregon University System. Also, approximately 4,900 students transferred from community colleges to the Oregon University System in the 2001-02 academic year. The determinants of community college enrollment levels are more complex than for either K-12 enrollments or Oregon University System enrollments, however. Only 25% of community college students (or a headcount basis) are in the traditional college age category of 18 to 24. Over 28% are 45 or older. Changes in the size of the 18- to 25-year-old population, therefore, is a less important determinant of enrollment demand for community colleges than it is for higher education institutions.



Many community college students are workers seeking retraining as the types of jobs that are available change, and graduating high school students seeking professional/technical education to become qualified for available jobs. Students may also seek an associate degree at a community college or choose to take lower division transfer courses preparatory to transfer to a four-year degree institution. As jobs become more technical and requirements for workers to have a high school diploma or GED increase, there is more demand for adult literacy service. All in all, demand for community college services is very sensitive to changes in economic conditions. Typically, demand has been counter-cyclical, falling during good economic times and rising during recessions.

Recently, however, total enrollment grew strongly even as the economy did well during the later 1990's. On a full-time equivalent basis, enrollment surpassed the previous peak attained in the 1992-93 academic year. After Measure 5 affected community college property tax collections beginning in 1991, the state increased General Fund support to help offset this impact. Community colleges nonetheless had to raise tuition to continue service offerings. Average in-district tuition rates have tripled since Measure 5. For three years tuition increased at annual rates of 15% or higher. Recently, however, tuition increases had moderated and been below the rate of inflation. This is no longer the case. Colleges are responding to state support reductions by increasing tuition rates, as well as by reducing expenditures. The average tuition rate increased over 18% in 2002-03, and is expected to increase a further 11% next fall.

Enrollment growth has accelerated over the growth rates of the mid-1990s. Total enrollment on a full-time equivalent (FTE) basis increased 7.1% in 2001-02 to an all time high of 97,550 FTE. CCWD projects that the reductions in state General Fund support approved during the five 2002 special legislative sessions will cause enrollment to decline in 2002-03, and that the further reductions included in the Governor's balanced budget proposal will result in further enrollment declines in the 2003-05 biennium. If enrollments decline as the Department projects to just over 90,000 FTE in 2004-05, total enrollment would fall to levels not seen since the start of the 1999-01 biennium. The decline is projected to occur because of a reduction in course availability and increase in tuition rates, and not because of a reduction in demand. Community colleges will reduce the number of course sections offered as General Fund reductions cause fewer faculty to be hired. Although the potential for such an enrollment decline clearly exists, the Department's enrollment projections should be viewed as highly speculative. Their forecast methodology assumes that colleges will adjust (reduce) enrollments to maintain the level of state General Fund support per FTE enrollment (after adjusting for inflation). Community college enrollment levels have not exhibited this relationship in the past, however.



Furthermore, a more useful measure of the funds available to community college programs would include both property tax collections and tuition and fee revenues, along with state General Fund support. Colleges essentially combine these three revenue sources to finance program delivery. Revenue from these combined sources increased at a healthy rate during the 1990's. Each biennium, revenues increased from a low of 7.6% (in 1993-95) to a high of 12.7% (in 1997-99) over the prior biennium level. After the 2002 special session reductions, effective funding for community colleges from these three sources in the 2001-03 biennium was still up 8.9% over the prior biennium level. Under the Governor's balanced budget, however, 2003-05 biennium revenues are projected to be only 2.7% above the reduced 2001-03 biennium level. This rate of increase is not enough to cover the colleges' increased costs, so program cutbacks will need to be made.

The distribution formula for the Community College Support Fund is not established in statute. Instead, the formula is approved by rule of the State Board of Education. During the 1999-01 biennium, the CCSF distributed state General Fund to campuses primarily on a per-FTE enrollment basis. The formula defines full-time equivalency on the basis of contact hours. A total of 510 contact hours is equivalent to 1 FTE enrollment.

The same standard applied for Lower Division Collegiate, Professional/Technical, Developmental Education, and Self-Improvement courses. Enrollments in a fifth category of classes, hobby courses, were not included in a college's total FTE enrollment figure for purposes of its CCSF distribution. There were three primary adjustments to a straight enrollment-based distribution: a) colleges received a base enrollment distribution which effectively provided greater funding to small colleges to offset their inability to benefit from economies of scale, b) some adjustments were made to smooth the transition from an earlier formula that had included funding floors and caps, and c) one-half of each district's operating property taxes were counted towards meeting the total funding that the college was eligible to receive under the formula.

The impact of including one-half of district property taxes in the formula is to move towards equalization of college funding on a per FTE-enrollment basis. (If all operating property taxes were included in the CCSF, as is the case for the State School Fund, then there would be no relationship between a district's funding and its property tax collections.) Including one-half of the property taxes, compared to a formula that ignores property taxes in determining distribution, benefits districts with lower property tax collections per-FTE at the expense of districts with higher property tax collections per FTE. A lawsuit has been filed to challenge the authority of the State Board of Education to include consideration of property tax collections in the CCSF distribution formula. The court has yet to rule on this issue.

The State Board of Education has suspended the CCSF distribution formula, as discussed in the previous two paragraphs, through the 2003-05 biennium. The Board will distribute state General Fund in the proportions determined by the formula as of Fall Term 2001. Thus, in effect, the formula is "frozen" for the biennium, and colleges' General Fund allotments will not be dependent on their enrollment levels. The Board made this adjustment to provide more stability to colleges as state support declines, and has established a committee to recommend a new distribution formula for 2005-07.

Governor's Budget

The Governor's balanced budget includes a number of reductions in CCSF funding. The combined effects of these reductions are to provide General Fund support at a level approximately 12.7% below the amount approved in the 2001 Session, and approximately 4.8% below the amount the Legislature approved in 1999. The budget essentially provides a level of General Fund support in the 2003-05 biennium that is double the amount that community colleges received in the 2002-03 fiscal year, with some modifications. In order to generate this level of funds, the special session reductions were biennialized. The 2002 Second Special Session reduction was continued. The 2002 Fifth Special Session reductions were essentially doubled, since colleges took the entire reduction in the second year of the 2001-03 biennium. Furthermore, all inflation adjustments that are typically allowed in the calculation of CCSF funding levels were removed.

The funding reductions relating to the 2002 Fifth Special Session alone are equivalent, on a per-FTE basis, to the General Fund that would support almost 16,000 FTE in the Community College Support Fund formula. If the colleges' projected revenue from tuition, fees, and property taxes is included, the total 2003-05 funding will be 2.7% above what was received from these sources in 2001-03. This rate of increase will be insufficient, however, to prevent program cuts and layoffs at the colleges.

CCWD – Federal/Other Support to Community Colleges

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,538,236	6,296,890	8,611,918	8,827,518
Federal Funds	99,504,385	113,185,187	142,187,362	119,914,889
Nonlimited Federal Funds	0	0	0	2,339,105
Total	**105,042,621**	**119,482,077**	**150,799,280**	**131,081,512**
FTE	0.00	0.00	0.00	0.00

Program Description

This program area includes Federal and Other Funds that are not spent at the agency but that are transferred to community colleges, workforce investment boards, and service providers. Federal Funds support the Workforce Investment Act (WIA Title IB), Adult Education and Family Literacy (WIA Title II), and Even Start Family Literacy programs. Other Funds are Carl D. Perkins Technical and Applied Technology Act moneys that are transferred to support development of community college Professional/Technical programs. The federal government is the ultimate source of these funds, but the agency receives them as Other Funds because they are transferred to it through the Office of Professional Technical Education in the Oregon Department of Education.

The WIA Title IB program provides services to dislocated workers, youth employment training programs, and other workforce training programs for adults. These programs help workers obtain new skills to become more employable, improve their earnings, and decrease welfare dependency. WIA programs serve approximately 30,000 people each biennium. CCWD retains a small portion of WIA funds for administration, but distributes the bulk of the funds to workforce investment boards and service providers in the state's seven local service delivery areas. WIA Title IB funds also support the National Emergency Grant (NEG) program. This program provides federal funds to retrain dislocated workers when large numbers of workers are laid off because of poor economic conditions. CCWD must apply to the federal government for any NEG funds. These applications are specific to particular layoff events.

The Adult Education and Family Literacy (WIA Title II) funds are received from the U.S. Department of Education and distributed to community colleges to support programs in developmental education for adults. Approximately 26,000 students are served by these funds each year. Even Start Family Literacy finances family-centered literacy programs that target both children and their parents.

Budget Environment

Federal support for these programs has grown in recent years. The programs assist workers in upgrading their skills to meet the needs of a changing labor market, and support Adult Basic Education programs at community colleges. Changes in the economy increase the need for the services these programs provide, even if the economy as a whole is growing. Demand for program services has only increased further though as a result of the current recession. The Department has successfully obtained additional funds through the National Emergency Grant (NEG) program, which addresses large layoffs. During the interim that followed the 2001 legislative session, the Emergency Board authorized the Department to apply for NEG grants as the need arose, without needing to obtain Emergency Board approval for each grant application.

Governor's Budget

The Governor's balanced budget supports these programs at the projected Federal Funds and Other Funds revenue levels. The budget projects that funding will increase by approximately 4.8% from the prior biennium level. It is difficult to know now, however, what the eventual biennial funding for these programs will be. In recent biennia, the Emergency Board has increased the Federal Funds expenditure limitation substantially as federal program funding increases became known. Both the WIA Title IB and Title II programs, and the Carl Perkins Professional/Technical program, are up for federal reauthorization this year, adding to the uncertainty over revenue forecasts. If federal revenues fall short of projection, the Department will reduce transfers to service providers who will in turn reduce services. If federal revenue exceeds projection, the Department will request the Emergency Board to authorize the transfer of the additional funds.

The budget would make some of the Department's Other Funds expenditures nonlimited for the first time. Expenditure of revenue from the federal National Emergency Grants (NEG) program could be spent as received without limitation. The Governor also proposes moving the Even Start Family Literacy program to the Department of Education, and his budget for CCWD includes no expenditures of funds from this program. The program transfer is designed to conform to the federal No Child Left Behind Act.

CCWD – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	4,716,135	4,352,085	4,352,085	3,316,055
FTE	0.00	0.00	0.00	0.00

Program Description

This program pays the principal and interest on general obligation bonds issued under Article XI-G of the state Constitution for community college capital construction projects. The Legislature has not authorized new Article XI-G bonds for community colleges since the 1979 Session. Debt service requirements are declining as the existing bonds are paid off.

Governor's Budget

The Governor's budget fully funded this program.

CCWD – Community Service Commission

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Federal Funds	3,506,651	0	0	0
FTE	2.00	0.00	0.00	0.00

Program Description

The Oregon Community Service Commission administers a number of federal programs funded through the Corporation for National Service. The AmeriCorps program is the largest of these. This program is intended to foster a sense of community and service by funding volunteer projects. Participants receive a small living stipend roughly equivalent to the federal minimum wage, and are entitled to $4,725 of tuition assistance at a community college or four-year institution for each year of service. A participant can stay in the program for no more than two years. The program is funded primarily with Federal Funds. The Commission staff is housed at Portland State University. The Legislature transferred this program to the Oregon Housing and Community Services Department in 2001. The program is no longer funded in the CCWD budget, and is included here for historical context only.

CCWD – Oregon Youth Conservation Corps

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	433,673	448,661	407,185	390,730
Other Funds	1,824,871	1,610,715	1,892,787	1,971,138
Total	**2,258,544**	**2,059,376**	**2,299,972**	**2,361,868**
FTE	3.00	3.00	3.00	3.00

Program Description

The Oregon Youth Conservation Corps (OYCC) was established in 1987. The Legislature, at the Governor's request, moved the OYCC from the State Commission on Children and Families to the Department of Community Colleges and Workforce Development in 1999. OYCC provides education, training, and employment opportunities based on conservation efforts to disadvantaged and at-risk youth ages 14 to 25. The OYCC has created a private nonprofit foundation, which allows private fundraising in support of its activities.

OYCC operates two programs. The first – the Conservation Corps – operates during the summer and supports at least one youth crew in every county who work on natural resource and conservation projects. The second program – the Community Stewardship Corps – offers alternative education programs during the school year for at-risk youth through hands-on environmental projects. Approximately 1,800 youth were involved in both programs during the 2001-03 biennium.

Revenue Sources and Relationships

Other Funds are primarily from the Amusement Device Tax. The Amusement Device Tax is levied on the state's video lottery terminals. OYCC also receives transfers from other state agencies as Other Funds.

Governor's Budget

The Governor's balanced budget carries forward and biennializes, by doubling, the program reductions made in the 2002 Fifth Special Session. The budget also eliminates all inflation allowances for service and supply costs. The net effect is to reduce General Fund support 13% from the level approved in the 2001 Session. This will reduce the number of youth who can be served in the two programs.

Department of Education (ODE) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved*	2003-05 Governor's Recommended
General Fund	4,516,507,216	5,063,020,061	4,067,023,952	5,014,284,953
Lottery Funds	300,993,686	344,417,086	398,081,006	278,564,277
Other Funds	271,234,139	173,700,530	637,197,369	128,560,122
Federal Funds	578,141,568	704,012,722	725,644,334	579,832,073
Nonlimited	5,133,585	4,707,302	4,707,302	188,134,694
Total	**5,672,010,194**	**6,289,857,701**	**5,832,653,963**	**6,189,376,119**
FTE	466.98	462.90	459.03	459.91

**Through January 2003 Emergency Board – does not reflect actions taken by the 2003 Legislative Assembly in SB 5548.*

The Oregon Constitution directs the Legislature to "…provide by law for the establishment of a uniform and general system of common schools." The State Board of Education and the State Superintendent of Public Instruction are responsible for adopting rules for the general governance of public kindergartens, elementary and secondary schools (ORS 326.051(1)(b)); implementing statewide standards for public schools (ORS 326.011 and 326.051(1)(a)); and making distributions from the State School Fund to districts that meet all legal requirements (ORS Chapter 327). The State Superintendent of Public Instruction is elected by the voters for a four-year term. A new superintendent was elected in May 2002 and took office in January 2003.

The Oregon Department of Education (ODE) provides support to the State Board and the State Superintendent in carrying out their responsibilities. The ODE also is responsible, under federal and state laws, for administering special education programs, including services to disabled children from birth through age 21; pre-school programs; compensatory education programs; and vocational education programs. The ODE's role generally is to provide curriculum and standards development, technical assistance, monitoring, accountability, and contract administration. Department staff provide direct educational services at the Schools for the Deaf and Blind and assist in the education program at the juvenile correctional institutions such as Hillcrest and MacLaren.

Overall, the Governor's budget is a 1.6% decrease, or $100 million, from the 2001-03 legislatively adopted budget but a 6.1% increase, or $357 million, over the 2001-03 legislatively approved budget through the 2002 fifth special session. Most of this increase ($211 million) is due to the one-time savings of the "shift" of the final 2001-03 State School Fund payment to the 2003-05 biennium (SB 1022, 2002 third special session). The following are highlights of the Governor's budget.

- The budget increases General Fund support for the State School Fund by over $900 million above the 2001-03 legislatively approved budget through the 2002 fifth special session. Over one-half of this General Fund increase is due the planned use of one-time funding sources in 2001-03 for the State School Fund from the following: the Education Stability Fund -- $150 million; Tobacco Master Settlement Bonds -- $150 million; and Medicaid Upper Payment Limit Funds (MUPL) --$175 million. Another $120 million is due to reduced Lottery Funds support, reflecting a decrease in lottery resources available for allocation after meeting statutory distribution requirements and debt service on lottery bonds. Finally, the one-time savings from the shift of the final 2001-03 payment to the 2003-05 budget makes up most of the balance of the increase.
- The budget provides $5.05 billion for the State School Fund compared to a $5.2 billion adopted budget for 2001-03 and a $4.7 billion approved budget after 2002 special session actions. (This latter amount is without regard to the accrual provisions of SB 1022.) No funding is included for compensation increases or services and supplies inflation.
- The budget adds $100 million to the State School Fund to restore certain reductions taken during the 2001-03 biennium. The intent in the Governor's budget is to prevent further reductions in the number of instructional days in Oregon's K-12 school districts. It also adds $550,000 General Fund for local option grants to qualifying districts.
- The budget adds $4 million General Fund to reinstate statewide assessments that were suspended during the 2001-03 biennium due to special session reductions.

The Department's budget consists of the following programs: Operations, Special Schools, Youth Corrections Education Program, Grant-in-Aid, State School Fund and Other K-12 Grants, and Debt Service.

ODE – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved*	2003-05 Governor's Recommended
General Fund	42,682,787	45,117,708	36,360,735	43,749,056
Other Funds	4,560,317	8,863,658	11,296,867	10,071,488
Federal Funds	22,368,494	32,862,087	32,874,920	40,858,326
Nonlimited	5,133,585	4,583,258	4,583,258	4,743,670
Total	**74,745,183**	**91,426,711**	**85,115,780**	**99,422,540**
FTE	259.06	265.99	265.99	270.93

**Amounts do not include February 2003 "Special Session 6" adjustments, which decreased General Fund by $990.000.*

Program Description

Department Operations includes the overall leadership responsibilities and activities of the State Board and the Superintendent, administration of a variety of programs, and assistance to and review of local districts.

State leadership is provided by the ***State Board of Education*** and the ***Office of the State Superintendent***. The State Board adopts standards for public schools and is the policy-making body. The Office of the State Superintendent exercises a general superintendency of school officers and public schools.

Two deputy superintendents report to the State Superintendent: the Education Policy Deputy and the Operations Deputy. Education policy includes research and policy as well as federal program and legislative liaison services. Operations includes the Department's communications team that is designed to deliver information about the agency, its mission, programs, and outcomes to internal and external stakeholders; human resources; pupil transportation; technology and information resources; school finance, data, and analysis; and management services. Operations also includes a number of offices described below.

The ***Office of Assessment and Evaluation*** oversees the development and implementation of the statewide assessment system, which is designed to measure student performance against state content standards. This office also provides information used in state-issued school and district reports cards and by districts in planning school improvement. The ***Office of Curriculum, Instruction, and Field Services*** provides services through the development of common curriculum goals and academic content standards. Staff provide technical support to schools and conduct site visits for school improvement in local districts. This office also administers grants for charter schools, character education, teacher quality, reading, and technology.

The ***Office of Professional Technical Education*** focuses on preparing high school students to enter the workforce or vocational programs at community colleges. Specific tasks include providing technical assistance to local education agencies, ensuring federal vocational education requirements are met locally, and designing the Certificate of Advanced Mastery (CAM). The CAM requires students to apply academic knowledge within the context of a career area.

The ***Office of Special Education*** oversees the Department's numerous special education programs (including regional programs and Early Intervention/Early Childhood Special Education), provides technical assistance, and monitors to ensure compliance with federal and state requirements. The ***Office of Student Services*** directs efforts to help disadvantaged children meet standards. Programs managed by this office include compensatory education programs in local school districts, early childhood education programs (including Oregon Prekindergarten), and child nutrition programs. The office also monitors for compliance with federal law and provides technical assistance to school districts. Other programs in this office include those addressing race and sex equity, drug and alcohol, health education, and homeless students.

Revenue Sources and Relationships

Other Funds revenues include indirect cost recovery from federal programs (45%); fees for fingerprinting and background checks (16%); funds from the Office of Community College and Workforce Development for professional/technical education services and administration (8%); fees for licensing private vocational schools (7%); tuition protection fees from private vocational schools to reimburse students in case of closure of these schools (5%); textbook review fees (5%); and other miscellaneous fees (14%).

Nonlimited Funds are from registration fees that pay for related workshop and conference costs (approximately $156,000) and a School Lunch Revolving Fund for brokering surplus food for schools (approximately $4.7 million).

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

Budget Environment

A major focus of the Department is the implementation of the Oregon Educational Act for the 21st Century, Oregon's school reform legislation. A primary emphasis of the Department's reform effort is to help students master subject matter, demonstrate knowledge, and apply learning to new situations. To these ends, the State Board has adopted statewide Certificate of Initial Mastery standards.

In 1999, the first Certificates of Initial Mastery (CIM) were awarded to tenth graders successfully passing tests taken in Spring 1999 in English and mathematics. Science was added in 2000-01. Arts (2001-02) and second language (2002-03) are also now a part of the CIM program. Social sciences and physical education assessments are planned for next biennium. Students who fail the test are given an opportunity to take the test again. The CIM is available to students in grades 9-12, thereby removing the emphasis on grade 10 as the completion point.

Initial testing for the Certificate of Advanced Mastery, which is awarded in the context of a career area, began in 1999. Oregon high schools are at various stages of development and implementation. The schedule for statewide implementation is September 2006.

The student assessment system is a key component of the standards-based reform effort. The original testing system, however, has been labor- and paper-intensive, creating additional demands on school staff and diverting time away from instruction. Additionally, test results have not been available on a timely basis to provide maximum benefit to the student. During the 1999-01 biennium, the Department received $3.5 million from the legislative Emergency Board to begin phasing in a project using available assessment software and an Internet-based delivery system. This project, called the Technology-Enhanced Student Assessment (TESA) system, will eventually replace the paper and pencil process, thereby reducing the turnaround time for test results as well as the workload associated with the current system. In January 2001, the Department began implementing the first phase of the project, which included 28 schools as of the end of the 1999-01 biennium. In 2001-02, approximately 300 schools participated in TESA administration. In 2002-03, approximately 560 schools are expected to participate. The Department expects 75% of students will be using TESA by 2004-05. Although 2002 special session reductions eliminated a portion of TESA funding, the agency has made it a priority in 2001-03.

The recently reauthorized federal Elementary and Secondary Education Act, also known as the "No Child Left Behind Act of 2001," makes significant changes in accountability for the state, school districts, and individual schools. States must have certain levels of academic content and achievement standards for all students. Annual assessments aligned with state standards are the primary measure of student performance as well as state and school district accountability. Schools are responsible for ensuring students make adequate yearly progress, as defined by the state. There are consequences for failure to make progress, such as allowing students to transfer to another school. Although the U.S. Congress appropriated additional federal funding to implement these and other requirements under the law, states have expressed serious concerns that the funding may be inadequate to carry out the federal mandates.

Oregon seems well positioned to implement the federal law, a part of which requires annual testing in grades three through eight beginning with the 2005-06 school year. Under the Oregon Educational Act for the 21st Century, the Department of Education has developed content standards and an assessment system aligned to those standards for certain grade levels (3rd, 5th, 8th, and 10th). Oregon's assessment system received federal approval, although subsequently several tests were suspended as a result of special session reductions made by the Legislature in 2002. (Federal funding of $5.5 million was received by Oregon to implement the new assessment requirements but the Legislature reduced the ODE's budget by $5.5 million General Fund during the 2002 special legislative sessions to balance the state's General Fund budget.) For the 2002-03 school year the agency suspended writing tests for 3rd, 5th, and 8th grades; mathematics problem-solving and science for 5th and

8th grades; and a social sciences pilot testing for 5th, 8th, and 10th grades. The U.S. Department of Education has

expressed concern over these suspensions, but the funding level in the Governor's budget essentially restores these assessments.

During the special sessions, the Operations program also was reduced by $197,040 General Fund to reflect the funding of salary increases at 74.2% of actual costs and by $2.5 million for a special purpose appropriation related to the Department's technology projects. Another $1.4 million General Fund was disappropriated from the Operations budget since voters did not approve the January 2003 tax measure. In addition, the December 2002 economic and revenue forecast projected an additional $112 million statewide budget shortfall for 2001-03. As a result, the Operations budget was reduced through the allotment process by $440,120 General Fund. To manage to these reductions, the agency plans to further reduce expenditures in the assessment program, data projects, and curriculum and other services this biennium.

To achieve the estimated roll-up savings of $2.8 million General Fund in 2003-05, the agency plans to eliminate four positions (3.6 FTE), transfer personnel costs for six positions to federal funding sources, and reduce services and supplies.

Governor's Budget

The Governor's budget is an 8.8% increase over the 2001-03 legislatively adopted budget and a 16.8% increase over the 2001-03 legislatively approved budget through January 2003. Within these overall increases, General Fund is decreased by 3% from the legislatively adopted level but increased by 20.3% over the legislatively approved level. About one-half of the latter increase is due to the addition of $4 million General Fund for the statewide assessment system to help restore reductions taken in this program during the special legislative sessions. A large portion of the balance of the increase is for salary adjustments not yet removed from the agency's budget but eliminated in the Governor's budget on a statewide level. Federal funds are increased by 24.3% from both the legislatively adopted and approved budgets, largely due to funds for assessment activities associated with the No Child Left Behind Act.

The Governor's budget also contains a policy package to establish nine positions (9 FTE) but at no net cost. The package is intended to resolve double-filled and work-out-class positions. Funds from services and supplies, primarily the professional services category, would be transferred to the personal services budget. The budget also includes a $232,353 Federal Funds policy package and one position (0.7 FTE) to transfer the Even Start Family Literacy program from the Office of Community Colleges and Workforce Development to the ODE.

Finally, because of General Fund constraints, inflation on services and supplies is reduced by $735,960 General Fund.

ODE – Special Schools

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	14,796,242	16,684,209	16,172,930	17,328,211
Other Funds	3,320,390	3,281,915	3,297,752	3,251,114
Federal Funds	447,389	567,111	1,081,804	859,044
Nonlimited	0	124,044	124,044	124,886
Total	**18,564,021**	**20,657,279**	**20,676,530**	**21,563,255**
FTE	162.92	160.91	157.04	154.98

Program Description

The School for the Blind (OSB), with 11 structures on a 7-acre campus, serves approximately 50 students annually who have visual impairments and educational needs beyond what a local school district or regional program can provide. Students range in age from 4 to 21 years. They generally have multiple disabilities that require intensive services and thus are referred to OSB by the local school district after a finding that needed services are not available locally. OSB also provides summer programs and coordinates diagnostic services to over 200 students annually and provides consultation services to school districts, regional teachers, and others.

The School for the Deaf (OSD) is a residential/day program serving about 130 students annually who are hearing-impaired and cannot be served in the community. OSD provides academic and career education, living skills development, athletics, and leadership training. Enrollment has declined from 206 students in 1982-83

because students whose deafness was caused by rubella have now completed their education. OSD is made up of 19 structures on a 52-acre campus.

Revenue Sources and Relationships

Other Funds revenues are from County School Fund receipts for special education billings by the Department to individual counties (49%); donations (10%) (expended as Nonlimited Funds); Medicaid reimbursements (9%); transfers from the Commission for the Blind (8%); fees from local school districts for services provided to their students (6%); nutrition reimbursements (2%); and other miscellaneous sources (16%).

Federal Funds are from the Individuals with Disabilities Education Act and the Carl Perkins Professional and Technical grant. Most of the funding for operating costs comes from the General Fund. Parents pay no tuition or room and board because of the federal requirement for a free and appropriate public education for every child.

Budget Environment

Enrollment at the OSB has been at about the same level since 1986. The Department is projecting a slight increase in referrals in 2003-05, based on fewer services being available from school districts and regional programs. Enrollment at the OSD has increased slightly, from 115 students in 1995-97 to 130 in 2001-03. The Department anticipates growth in enrollment to between 140 to 150 students for 2003-05.

During the 2002 special legislative sessions to balance the state's General Fund budget, the Special Schools program was reduced by $668,000 General Fund for capital outlay as well as services and supplies and by $265,370 General Fund to reflect the funding of salary increases at 74.2% of actual costs. Another $606,270 General Fund was disappropriated from the program as a result of the failure of Measure 28 in January 2003. The agency expects to offset $600,800 of this latter reduction with Other and Federal Funds and will reduce the services and supplies budget by $5,470.

The December 2002 economic and revenue forecast projected an additional $112 million statewide budget shortfall for 2001-03. As a result, the budget was reduced through the allotment process by $195,762. The agency expects this program reduction will result in fewer staff and increased class sizes.

To achieve the estimated $1.2 million General Fund savings in 2003-05 from the roll-up of permanent reductions, the Department will have to reduce the education and residential programs further. As a result, some students currently placed at the state schools may have to be returned to their local school districts, where the students' needed services may or may not be available. The Department plans to eliminate four positions (3.6 FTE), transfer some personnel costs to Federal and Other Funds sources (the latter from charges to home school districts for certain services), and reduce services and supplies.

Governor's Budget

The Governor's budget is about a 4.4% increase over the 2001-03 legislatively adopted and approved budgets. General Fund support is increased by 7.1% from the 2001-03 legislatively approved level, primarily due to salary increases. The Governor's budget assumes no cost-of-living adjustments and no merit increases for all state employees and school district employees. However, these were not adjusted at the individual agency level.

The Governor's budget also contains a policy package to establish two positions (2 FTE) but at no net cost. The package is intended to resolve double-filled and work-out-class positions. Funds from services and supplies, primarily the professional services and maintenance categories, would be transferred to the personal services budget. Finally, because of General Fund constraints, inflation on services and supplies is reduced by $13,048 General Fund.

ODE – Youth Corrections Education Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended

Other Funds	20,074,540	20,401,698	28,617,422	23,050,000
Federal Funds	1,965,843	2,861,482	2,865,568	2,924,656
Total	**22,040,383**	**23,263,180**	**31,482,990**	**25,974,656**
FTE	45.00	36.00	36.00	34.00

Program Description

ODE is responsible for ensuring that educational services are provided to children in the state's close custody facilities, including Hillcrest and MacLaren, youth work-study camps, and accountability camps ("boot camps"). The Department contracts with local education agencies to provide services to students.

House Bill 3619 (2001) made the Department of Education, rather than the resident school district, responsible for providing educational services to eligible students in county detention programs. The average daily membership is limited to 350.

Revenue Sources and Relationships

Funding for the juvenile corrections education program comes from the State School Fund and is reflected as Other Funds. For 1995-97, funding was set aside for the program with the remainder of the State School Fund distributed to local school districts through the normal distribution formula. The provision that set aside funding for the program sunsetted at the end of the 1995-97 biennium. The program now is treated as a separate school district with per student revenues distributed through the formula.

Federal funding is from the Title 1 Neglected and Delinquent Program, the Individuals with Disabilities Education Act, and the Youth Offender Post-Secondary Education Grant.

Budget Environment

Youths in juvenile corrections facilities include those prosecuted under Measure 11, which took effect in April 1995. For any of 23 violent crimes, Measure 11 allows youths aged 15 to 17 to be tried as adults and mandates minimum sentences. Oregon law also allows juvenile offenders charged with other serious crimes to be remanded or "waived" to the adult system. Approximately 33% of this population is made up of Measure 11 and waived inmates.

The October 2002 forecast predicted juvenile arrest rates would increase slightly over the next several years, but remain lower than in the 1980s and 1990s. The total close custody population forecast was projected to grow from 1,058 at July 2003 to 1,125 at July 2005, a 6.3% increase. The April 2003 forecast projects a population of 910 at July 2003 and 950 at July 2005, a 4.4% increase. In part, the decrease in the forecasted population is due to the recent closure of four facilities (in Albany, Burns, Prineville, and Warrenton), resulting in 250 fewer beds. These facilities were closed as a result of the failure of Measure 28 in January 2003.

Historically, about 80% of the youths in juvenile facilities have been eligible for special education services, which results in a double-weighting in the distribution formula. The education needs of the youths must be met for the most part in intensive, individualized services in small group settings. Students in county detention programs are assigned a weight of 1.5.

Governor's Budget

The Governor's budget is an 11.7% increase over the 2001-03 legislatively adopted budget but a 17.5% reduction from the 2001-03 legislatively approved level. The budget reflects the amounts to be received from the State School Fund after the 250-bed reduction in juvenile corrections facilities.

ODE – Grant-in-Aid

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved*	2003-05 Governor's Recommended
General Fund	186,815,896	210,007,088	193,629,260	198,055,672
Other Funds	14,045,185	14,706,845	16,502,805	14,967,465
Federal Funds	553,359,842	667,722,042	688,822,042	535,190,047
Nonlimited	0	0	0	183,266,138
Total	**754,220,923**	**892,435,975**	**898,954,107**	**931,479,322**
FTE	0.00	0.00	0.00	0.00

**Amounts do not include February 2003 "Special Session 6" adjustments, which decreased General Fund by $200,000 for the Oregon Public Education Network.*

Program Description

The majority of the Department's Grant-in-Aid programs purchase educational services for students with specific educational needs. These programs are administered by school districts or entities other than state government. Grants are made for special student services, such as Oregon Prekindergarten, compensatory education, teen parent programs, and child nutrition services. They also include special education services provided by regional programs, Early Intervention/Early Childhood Special Education, and private agencies. Other programs include vocational and workforce development, school reform implementation, and expansion of technology.

Revenue Sources and Relationships

The Department receives substantial federal funding, mainly from the U.S. Departments of Education and Agriculture. Most of the funding is passed through to local school districts or contractors. The major federal sources for grant-in-aid programs are nutrition programs through the U.S. Dept. of Agriculture, Title 1 compensatory programs, the Individuals with Disabilities Education Act, and vocational education.

Other Funds revenues represent County School Fund receipts for special education billings by the Department to individual counties, state tobacco tax funds from the Oregon Health Division for tobacco education programs, and federal funds from the Oregon Employment Department for the Teen Parent program.

Budget Environment

In 1992, Oregon began implementing a state-operated program for children with disabilities from birth up to kindergarten age, known as Early Intervention/Early Childhood Special Education (EI/ECSE). At that time, the state came into compliance with federal PL 99-457 by providing mandated early childhood special education services to eligible children from ages three to kindergarten and following all federal special education regulations. Oregon also provides optional early intervention services to children with disabilities from birth to age three. The program has been experiencing increases since its inception, both in the number of eligible children entering the program and in the increasingly high cost to serve a small portion (about 4%) of those children. Annual growth of 5% is expected to occur in 2003-05, although it slowed to 2% in 2002-03. The program currently serves about 7,100 eligible children; in 2003-05 the Department projects growth to 7,880 eligible children.

The Oregon Prekindergarten Program, established in 1987 and modeled after the federal Head Start program, serves low-income three- and four-year-olds to foster their development and enhance their success in school. State and federal funds and services are coordinated to serve eligible children. State statute mandates that Oregon serve 50% of all eligible children by 1999 and 100% by June 2004. The Department had estimated earlier it would be serving 43% by the end of the 2001-03 biennium, a reduction from a 50% service level the Department had achieved earlier in June 2001. However, due to updated census data, it appears the percentage of eligible children served is closer to 60%. This change is due to the census data relating to the poverty level in Oregon. Supplemental data in 2000 indicated a poverty level of 24.4%. More recent information based on final census data indicates a poverty level of 17.5%. It is unclear how events subsequent to the census, specifically the economic recession in Oregon, may have affected the state's actual poverty level however.

The Department also is responsible for ensuring the delivery of education services to children in day and residential mental health programs as well as hospital programs. The Department contracts with local school districts or education service districts (ESDs) to provide the required services. The Grant-in-Aid budget also includes funding for regional programs. Regional programs, in collaboration with other entities, provide specialized educational support for children with hearing impairments, vision impairments, autism spectrum disorders, severe orthopedic impairments, and deaf-blindness. These are known as low-incidence disabilities, occurring in the general population at a low rate. There are eight regional contractors (generally an ESD) and each program hires trained, certified staff to provide the needed specialized services. The regional service delivery model provides equal access to services regardless of where the children live in the state. Approximately 6,100 students were served in 2001-03.

During the 2002 special legislative sessions to balance the state's General Fund budget, Grant-in-Aid programs were reduced by $16.4 million General Fund through targeted and across-the-board reductions. This includes

$7.3 million in across-the-board reductions due to the failure of Measure 28 in January 2003. Approximately $3.5 million in federal funding was expected to offset some of these reductions, specifically in the EI/ECSE program. In addition to the legislatively approved reductions, Grant-in-Aid programs were reduced by $2.3 million General Fund through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03.

To achieve the $15.3 million General Fund savings in 2003-05 from the roll-up of permanent reductions, some services currently provided through Department programs will become the responsibility of local school districts. Other service reductions may put the Department at risk of lawsuits, especially in the area of special education where eligible students are entitled to a free and appropriate education by federal law.

Governor's Budget

The Governor's budget is about a 4.4% increase over the 2001-03 legislatively adopted budget and a 3.6% increase over the 2001-03 legislatively approved budget. General Fund support is increased by 2.3% from the 2001-03 legislatively approved level, but is a 5.7% decrease from the 2001-03 legislatively adopted budget at the close of the 2001 legislative session. The budget:

- includes approximately $12 million for caseload increases in the EI/ECSE program;
- adds $1 million for the SMART (Start Making A Reader Today) reading program, a program designed to increase the literacy of young children, to expand it to all 36 counties;
- adds $3.5 million in Federal Funds expenditure limitation for transfer of the Even Start Literacy program from the Office of Community Colleges and Workforce Development; and
- eliminates inflation in General Fund support for grant-in-aid programs and continues the reductions taken during the 2002 special legislative sessions, for a total of $24.7 million. This includes eliminating General Fund support for the following Grant-in-Aid programs: Frontier Learning Network, Talented and Gifted, Junior Achievement, Low-Performing Schools, and Workforce Development.

The budget also converts the Federal Funds expenditure limitation for nutrition programs to non-limited Federal Funds. Since the program is an entitlement and external conditions beyond the agency's control can cause large fluctuations in expenditures, it appears the program is the type that is more appropriately budgeted as non-limited.

The following table shows the funding levels in the Governor's recommended budget for specific Grant-in-aid programs:

2003-05 Governor's Balanced Budget – Grant-in-Aid Programs *($ in millions)*

Program Name	General Fund	Other Funds	Federal Funds	Total Funds
Early Intervention/Early Childhood Special Ed	91.2	0.0	24.4	115.6
Oregon Pre-Kindergarten	53.6	0.0	0.0	53.6
Regional Programs	30.5	0.0	16.9	47.4
Long-Term Treatment & Hospital Programs	19.0	12.7	0.8	32.5
Nutrition Programs	0.0	0.0	183.3	183.3
Compensatory Education	0.0	0.0	210.6	210.6
Local & Other Special Education Programs	0.0	0.0	162.6	162.6
Vocational Education	0.0	0.0	29.3	29.3
Other Programs	3.7	2.3	90.6	96.6
TOTAL EXPENDITURES	**198.0**	**15.0**	**718.5**	**931.5**

ODE – State School Fund and Other K-12 Grants

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved*	2003-05 Governor's Recommended
General Fund	4,272,212,291	4,791,211,056	3,820,861,027	4,755,152,014
Lottery Funds	295,962,708	288,417,086	342,081,006	222,401,387
Other Funds	193,494,942	122,891,000	573,927,109	73,830,569
Total	**4,761,669,941**	**5,202,519,142**	**4,736,869,142**	**5,051,383,970**

FTE	0.00	0.00	0.00	0.00

**Amounts do not include February 2003 "Special Session 6" adjustments, which increased General Fund (by $27.5 million) and lottery support (by $10.5 million), but decreased Other Funds support (by $38 million), with no net effect on total funding as of the 2002 fifth special session; the total amount of $4.7 billion reflects the $211 million reduction made in anticipation of school districts using the accrual provisions under SB 1022 (third/fourth 2002 special sessions).*

Program Description

The Oregon Constitution directs the Legislature to "…provide by law for the establishment of a uniform and general system of common schools." General state support for K-12 schools and education service districts (ESDs) is provided through the State School Fund. The Department of Education makes distributions of state support to districts that meet all legal requirements (ORS Chapter 327).

Allocations to school districts include a transportation grant, a facility grant, and a general-purpose grant. The general-purpose grant follows a legislatively prescribed distribution formula based on number of students, additional weighting reflecting specific greater education costs, teacher experience, and local tax resources. This formula was designed to equalize allocations to schools. It has been phased in over time through the use of flat and stop-loss grants designed to ease the transition for certain school districts. Full implementation of the equalization formula occurred in the 2001-03 biennium. The 2001 Legislature adopted a phase-in plan to equalize ESD funding. Final equalization for ESDs begins in 2005-06.

Revenue Sources and Relationships

In the Governor's budget, the sole Other Funds source is Medicaid Upper Payment Limit (MUPL) funds. There is a significant decrease from the 2001-03 level of Other Funds support, primarily due to the use of one-time Other Funds resources this biennium to offset General Fund reductions. One-time sources include $262 million in transfers from the Education Stability Fund to the State School Fund. Additionally, $249.5 million of MUPL funds was approved for school support in 2001-03 whereas the amount available in 2003-05 is $73.8 million, a difference of $175.7 million. Finally, certain local tax revenues that were deposited in the State School Fund, as required by House Bill 3575 (1999), are phased out under current law and account for $23 million of the Other Funds sources in 2001-03.

For 1999-01, the majority of Other Funds were proceeds from lottery-backed bonds ($127 million), the School Technology Account established by Senate Bill 622 ($41.4 million), and local tax revenues under House Bill 3575 ($20.7 million).

State funding includes Lottery Funds, continuing the lottery support that began in the 1995-97 budget. However, for 2003-05, the amount of Lottery Funds in the State School Fund budget declines by $130 million from the 2001-03 level. As a result, lottery support in the Governor's budget accounts for 4.4% of state funding, down from 7.4% in 2001-03. This reflects a reduction in unobligated lottery resources after mandatory allocations and debt service requirements.

Budget Environment

Currently, there are 198 elementary and secondary school districts and 21 education service districts, serving about 540,000 students in grades K-12. Enrollment is at a record high and expected to climb throughout the 2003-05 biennium, at about the same rate (slightly less than 1%) as experienced in recent years. However, within overall growth, there has been a significant change in the demographics of the students enrolled. The proportion of minority enrollment to total enrollment was 11.2% in 1990, increasing to 21.4% in 2002. This growth has implications in how education is provided locally, ranging from the need for English as a Second Language services to culturally-sensitive programs in order to reduce the higher drop-out rate among minority students. The number of students in English as a Second Language or bilingual education programs has increased substantially, by about 16% per year since 1994. The low-income population in public schools (as indicated by the number of free and reduced-price lunches) is about 38% of the total.

Voter approval of Measure 5 in 1990 and Measure 50 in 1997, both of which limited local property tax revenues, caused a significant shift in funding sources for K-12 education. The proportion of state support for K-12 education has increased from about 28% in 1990-91 to about 69% in 2002-03. Given the shift in funding sources, a key issue is how to balance local control of expenditures with accountability to the Legislature, the taxpaying public and others. High academic standards, student assessments, school and district report cards, and the Database Initiative Project are steps towards accountability. The federal No Child Left Behind Act of 2001 reinforces and adds to these accountability requirements.

During the 2002 special legislative sessions to balance the state's General Fund budget, school support was reduced by a net $227 million General Fund, after backfilling with Other Funds sources such as the Education Stability Fund, MUPL funds, and increased Common School Fund distributions. (The additional $17.7 million Common School Fund distribution was provided for in HB 4055, 2002 third special session.) More specifically, School Improvement Fund grants of $112 million for the 2002-03 school year were eliminated during the second special session and the State School Fund was increased by $30 million through the third special session, for a cumulative reduction of $82 million. Subsequently, HB 4056 from the third special session, which was to have provided $50 million in proceeds from cigarette tax revenue bonds, was vetoed by the former Governor. During the fourth special session, the Legislature did not override the veto. The result was to bring the net reduction to $132 million. In the fifth special session, another $95 million General Fund was disappropriated, pending the outcome of the vote on the January 2003 tax measure. The failure of this measure brought the total legislatively approved reduction to $227 million.

Additionally, due to an administrative allotment rule adopted in response to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03, the State School Fund budget was reduced by another $46.2 million General Fund. This brought total reductions to $273.2 million. This amount does not include an additional $211 million reduction that was intended to be offset by statutory accrual provisions that allow school districts to use 2003-05 state resources to pay for 2001-03 services. (If the $211 million is added, the total reduction is $484.2 million.) In addition, current estimates for local property tax revenues for schools are about $31 million lower than 2001 close-of-session estimates for 2001-03. The 2003-05 roll-up effect of the permanent reductions in state support is approximately $500 million.

Schools districts have reported plans to layoff staff and reduce the number of school days in response to budget reductions. At a recent meeting of the State Board of Education, the Board was told that about 7% of school districts have reported to the Department that they are out of compliance with the minimum hours of instructional time required because of the reduced numbers of schools days. Other districts that are reducing school days apparently can still meet the minimum requirements.

Governor's Budget

The Governor's budget provides $5.05 billion for the State School Fund compared to a $5.2 billion legislatively adopted budget for 2001-03 and a $4.7 billion legislatively approved budget after 2002 special session actions. The budget does not include funding for salary increases, either through step increases or cost-of-living adjustments, nor does it include inflation on services and supplies. Had these amounts been included, they would have added over $550 million to the budget. However, funding is provided for increases in employer contributions under the Public Employees Retirement System (PERS), using a rate of 16.71%. Estimated savings from teacher turnover, with new hires expected to come in at lower salaries than those of retiring teachers, also are factored into the Governor's budget.

The Governor's budget includes $136.3 million (biennialized) for student growth of 1.37% in 2003-04 and 1.1% in 2004-05. The budget uses a student growth factor that considers the growth in individual student weights rather than only the growth in the average daily membership, or ADMr, of students. This results in higher growth factors since some student weights tend to increase at a faster rate than average daily membership. In prior years, the student growth factor used to calculate the budget tended to mirror the increase in average daily membership (although weights were considered). Although there is general acknowledgement that student weights (where students in certain categories, such as special education, count as more than only one student) are designed to reflect the higher costs of certain students, apparently most legislative discussions have focused on how weights divide up total funding available and can therefore shift funding among districts. The approach of using the growth in weighted students, or ADMw, in calculating the budget actually can, and in this case does, drive up the total funding for schools. It is unclear whether this is the legislative intent of student weights. Had ADMr factors been used in calculating the Governor's budget, the student growth factors would have been lower: 0.7% for 2003-04 and 0.6% for 2004-05.

The budget increases General Fund support for the State School Fund by more than $900 million over the

2001-03 legislatively approved budget after the 2002 fifth special session. About one-half of this General Fund increase is due to the planned use of one-time funding sources in 2001-03: the Education Stability Fund ($150 million), Tobacco Master Settlement Agreement bond proceeds ($150 million), and Medicaid Upper Payment Limit Funds ($175 million). Another $130 million is due to reduced Lottery Funds support, reflecting the decrease in unobligated lottery resources that are available after meeting statutory distribution requirements and debt service on lottery bonds. Finally, the one-time savings from the shift of the final 2001-03 payment to the 2003-05 budget accounts for $211 million of the increase. During the "sixth 2002 special session" in February 2003 to rebalance the 2001-03 statewide General Fund budget, the Legislature replaced the bond proceeds with

an additional transfer of $112 million from the Education Stability Fund, lottery revenues of $10.5 million, and General Fund support of $27.5 million.

The budget adds $100 million to the State School Fund to restore certain reductions taken during the 2001-03 biennium. The intent in the Governor's budget is to prevent further reductions in the number of instructional days in Oregon's K-12 school districts. The budget also adds $550,000 General Fund for matching grants to qualifying districts that have passed local option levies.

The following table shows the trend in state support for K-12 education:

($ in millions)	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	Gov's Budget 03-04	Gov's Budget 04-05
State funding (a)	626	818	1100	1132	1427	1750	1760	2078(b)	2252(c)	2329(d)	2437(d)	2537(e)	2363(f)	2554	2497
Local funding	1598	1561	1490	1343	1178	902	956	870	888	964	995	1037	1086	1105	1163
Total	2224	2379	2590	2475	2605	2652	2716	2948	3140	3293	3432	3574	3449	3659	3660
Percent change		*7.0%*	*8.9%*	*-4.4%*	*5.3%*	*1.8%*	*2.4%*	*8.5%*	*6.5%*	*4.9%*	*4.2%*	*4.1%*	*-3.5%*	*6.1%*	*0.03%*
STATE SHARE	**28%**	**34%**	**42%**	**46%**	**55%**	**66%**	**65%**	**71%**	**72%**	**71%**	**71%**	**71%**	**69%**	**70%**	**68%**

a State funding includes juvenile corrections for 1992-93 through 2003-05; Common School Fund distributions are reflected as local revenues

b Includes one-time funding of $50 million for classroom needs and $5 million for security; reflects reduction for $26 million excess property taxes over cap

c Includes $150 million from lottery bond sale for school facilities

d Includes $127 million lottery bond proceeds, $50 million in SB 622 proceeds, and $4 million GF to schools with more than 50,000 ADMw;
assumed distribution: $83 million in 1999-00, $98 million in 2000-01

e Includes $108 million School Improvement Fund and $225,000 for local option matching grants

f Includes $225,000 for local option matching grants; includes potential accrual of $211 million by school districts from 2003-05 resources (SB 1022 – 2002 Third Special Session); without the accrual, the percentage change from 2001-02 is -9.4%; reflects failure of Measure 28 ($95 million) and $46 million allotment reduction

Source: Legislative Revenue Office & Legislative Fiscal Office; historical data adjusted to actual and comparable funding sources

Based on the Governor's budget, the Legislative Revenue Office projects that the average per weighted student amount in 2003-04 will be $5,232. This is an 11.3% increase over the 2002-03 statewide average of $4,702, without any accrual. If the accrual resources are considered, then 2002-03 per student funding increases to $5,011. The 2003-04 per student amount then becomes an increase of 4.4% increase over 2002-03.

ODE – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	5,030,978	56,000,000	56,000,000	56,162,890
Other Funds	35,738,765	3,555,414	3,555,414	3,389,486
Total	**40,769,743**	**59,555,414**	**59,555,414**	**59,552,376**
FTE	0.00	0.00	0.00	0.00

Program Description

This program provides debt service (principal and interest) on lottery-backed bonds, including:

- $150 million of bonds approved by voters in November 1997 and issued in Spring 1999; and
- $127 million of bonds approved by the 1999 Legislative Assembly and issued in 1999-01 for state education projects as defined in House Bill 2567 (1999).

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

Revenue Sources and Relationships

House Bill 3411 from the 1997 legislative session established the Education Lottery Bond Fund to repay the debt from unobligated net lottery proceeds, legislative appropriations, and interest earnings of the fund. The law also states the legislative intent to pay debt service after 1997-99 from 75% of the interest earnings on the Education Endowment Fund (now the Education Stability Fund). Additionally, the 1997 Legislature specified that if distributions from the State School Fund and local revenues exceeded specified ceiling amounts for 1997-98 and 1998-99, any excess was to be transferred to the Education Lottery Bond Fund for the purposes of paying the principal, interest and premium, if any, on the lottery bonds. The 1999 Legislature also provided that any excess from 1999-00 and 2000-01 be used for debt service. The 2001 Legislature provided that any excess from 2001-03 could be used for 2003-05 State School Fund purposes rather than only for debt service. During the 1999-01 biennium, approximately $27 million in excess of the legislative caps set for 1997-99 State School Fund distributions were transferred to the Education Lottery Bond Fund for debt service.

Budget Environment

Debt service in the Governor's budget is primarily from lottery funds and interest earnings on the Education Stability Fund, with a small amount from other interest earnings. The Governor's budget assumes use of approximately $7.1 million in interest earnings from the Education Stability Fund in 2003-05. However, earnings available in 2003-05 now are estimated to be significantly lower, primarily due to the April and May 2003 transfers totaling $262 million from the Education Stability Fund to the State School Fund. These transfers are to backfill General Fund reductions taken in the State School Fund to rebalance the 2001-03 statewide General Fund budget.

Governor's Budget

The Governor's budget provides $49.1 million Lottery Funds, $7.1 million in Education Stability Fund interest earnings (these are reflected as Lottery Funds), and $3.4 million in other interest income for debt service.

Oregon Health and Science University Public Corporation (OHSU) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	111,896,927	3,300,000	3,180,764	93,679,467
Other Funds	0	101,313,772	191,967,039	131,093,366
Total	**111,896,927**	**104,613,772**	**195,147,803**	**224,772,833**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for the 2001-03 biennium are projected to equal $2.1 billion.

Program Description

The Oregon Health and Science University (OHSU) is the only academic medical center in the state. OHSU's mission includes education, research, clinical care, and public service. The university operates on its main campus adjacent to downtown Portland and on the site of the Oregon Primate Research Center and the Oregon Graduate Institute (West Campus) in Washington County. The University's academic programs include degree programs in Medicine, Dentistry, Nursing, Allied Health Professions, and biomedical research; and graduate programs in Engineering and Management through the Oregon Graduate Institute (OGI) School of Science and Engineering. In addition to its two main sites, OHSU also has clinical facilities throughout the Portland metropolitan area, and teaching programs in various locations throughout the state. The university is also planning an expansion into the North Macadam district in Portland.

OHSU has been organized as a public corporation since 1995. Prior to that, the university was a component of the Department of Higher Education. The change in status was granted to allow OHSU to operate more efficiently and to respond in a more businesslike manner to changes in the health care marketplace. At the same time, the public corporation status was designed to retain principles of public accountability and fundamental public policy.

The university is governed by a Board of Directors that is appointed by the Governor and confirmed by the Senate. The public policy of the university is delineated in statute. Nonetheless, under its public corporation status, OHSU operates with considerable autonomy. The Legislature no longer approves the university budget (or limits its expenditures from tuition and other sources), though the state continues to support OHSU through grants for its educational and clinical activities. These grants totaled $96.4 million in the 2001-03 biennium. The state also provided an additional $99 million in the 2001-03 biennium, part of a planned two-biennium fund transfer, to support the Oregon Opportunity Program – OHSU's expansion of its research programs in genetics and biotechnology.

Budget Environment

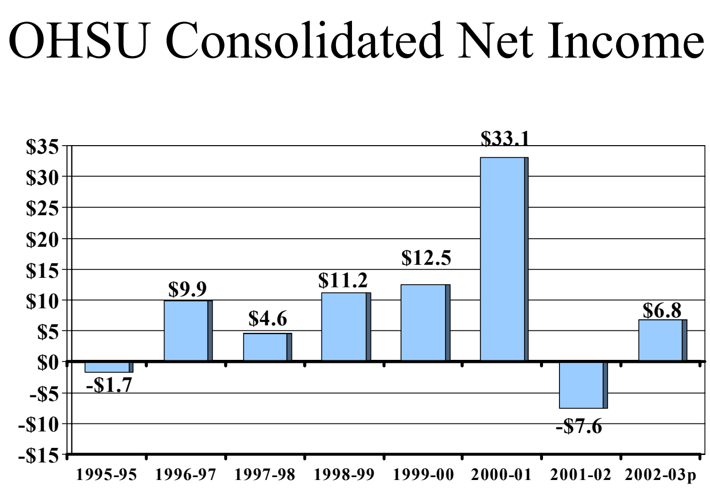
State support for OHSU's education and clinical programs has declined since the institution was reorganized as a public corporation. OHSU received $123.6 million from the state in 1993-95, the last biennium that it was a part of the Department of Higher Education. This level declined 15% when OHSU was turned into a public corporation in the 1995-97 biennium, and has declined a further 9% since then (this excludes Oregon Opportunity Program funds). General Fund was the source of state support until the 2001-03 biennium. During the 2001 Session, the Legislature approved most state support in the form of funds from the Medicaid Upper Payment Limit (MUPL) Account. The MUPL account holds payments from health districts, under the Proportionate Share Incentive Adjustment State Plan Amendment to the State Medicaid Plan and under intergovernmental agreements with the health districts, that are attributable to the federal funds portion of the total payment made to the health districts. The Legislature dedicated the MUPL account funds to health-related programs, and used these funds for almost all state support payments. Only $3.3 million in General Fund was provided for the Child Development and Rehabilitation Center and the Area Health Education Centers, to meet federal fund match requirements. State support now provides about 5.5% of OHSU's unrestricted revenues.

The largest source of revenue in the OHSU budget is the net medical service fee revenue generated by the hospitals and clinics, which total over $1.1 billion per biennium and contribute 55% of total operating revenue. Another 30% of operating revenue comes from gifts, grants and contracts. Student tuition and fees contribute 3%, and the sales and services of education departments contribute another 3%. The remainder is divided among various miscellaneous revenue sources.

OHSU has significantly expanded its operations in the seven years since it was organized as a public corporation. Although student enrollment in health programs has increased 13%, other measures have shown even greater expansion. The institution's operating budget has grown 110%, its total employment count has increased 69%, and annual grant awards totals have risen by 159%. The university's clinical services similarly show a large increase. The number of hospital discharges (excluding newborns) is up 31% since 1995, the number of clinic outpatient visits is up 72%, and the number of beds in the hospital is up 13%.

OHSU's hospitals and clinics operate in a competitive environment. As such, OHSU must adapt to a rapidly changing health care marketplace. OHSU's hospital costs are higher than its competitors because of its teaching functions. Under managed care systems, insurers are less willing to pay additional charges to cover OHSU's teaching-related expenses. This situation exists both in the private-payer and the public-payer markets. The state's Medicaid program, however, passes through extra payments to OHSU to compensate for the hospital's educational and related costs. These payments had declined though with the implementation of the Oregon Health Plan. After peaking in the 1991-93 biennium at $45.4 million, Medicaid pass-through payments fell to $27.3 million in 1995-97. In the 1999 Session, however, the Legislature agreed to allow OHSU to retain all of its Disproportionate Share Hospital and Graduate Medical Education (GME) pass-through payments, and supported a state plan amendment to increase GME payments. As a result, OHSU's Medicaid pass-through payments surged, reaching $88.4 million in the 2001-03 biennium. Medicaid pass-through payments are now falling again, however, and are projected at $74.9 million for 2003-05. OHSU also receives pass-through payments from the federal Medicare program. These payments, which had been rising, are expected to now level off at $77 million for 2003-05 biennium.

OHSU recently issued $250 million of bonds to finance a hospital expansion and the development of property in Portland's North Macadam district. These bonds are in addition to a $200 million bond being issued by the state, and the debt service on them will be paid by OHSU. OHSU's hospital is operating at capacity, and the university is expanding the hospital to allow it to serve more patients and to increase medical fee revenue. OHSU projects that the facility expansions will house an additional 1,000 employees.



OHSU 's net income, after depreciation expense, has fluctuated considerably over the years. The chart to the left shows OHSU consolidated net income in millions of dollars. The figure represents the amount earned by OHSU from both operating and non-operating sources after expenses, including depreciation, are subtracted. In addition to income generated from clinical and education services, the figures in the chart include investment income and the change in value of investments, and the earnings of the OHSU Foundation. State support dollars are also included in the figure, with the effect that if state support for the 2002-03 fiscal year were reduced by $6.8 million, and the university did not change its expenditures, it would show a fiscal year 2002-03 net income of zero. (In reality, the institution would reduce some expenditures if state support were lower.)

The consolidated figures shown in the chart do not disaggregate between OHSU's educational and clinical programs. Such a disaggregating shows that the educational programs do not generate sufficient revenue to cover their operating costs, with the net operating loss running at about $68 million per biennium. The university covers most of this loss with investment income and Foundation funds, but even with these non-operating funds the educational operations are still expecting a net loss of $8.1 million in the 2002-03 fiscal year.

OHSU, by generating net income from its hospital and clinical operations, is able to finance the educational costs.
As part of its $250 million bond sale, OHSU has committed to a five-year financial plan which includes expectations of financial performance to assure bondholders that the university will have sufficient income to repay the bonds. The Board of Directors has adopted a financial plan to eliminate any net loss in educational operations by the 2004-05 fiscal year. This will, at current levels of state support, require expenditure cuts in the education program. The corporation's financial plan also calls for an increase in the total margin (rate of net income bases on operating and investment incomes) in clinical services to increase to 6%. These combined requirements, roughly, require the corporation to increase its consolidated net income from the current $6.8 million projected to approximately $52 million in the 2006-07 fiscal year.

The university worked with the Joint Legislative Audit Committee prior to the 2001 Session to develop a number of performance measures relating to its education, patient care, research, and public service missions. The university also tracks measures reflecting its economic impact. The institution does not report targets for these performance measures, but it does report on changes in them.

The university's research performance measures track total dollar awards and national rankings. Total research awards reached $221.5 million in the 2001-02 fiscal year, an increase of 32% over the fiscal year two years earlier. In 2002, the university ranked 29th in terms of National Institutes of Health support to institutions of higher education, the same rank it has held for several years, but still up substantially from earlier levels. The university's performance measures for its public service mission track various activities, including: participation in the Area Health Education Centers (AHEC) program, which brings educational training to centers throughout the state; services provided by the Office of Rural Health; calls handled by the Oregon Poison Center; contacts made by the Center for Research on Occupational and Environmental Toxicology (CROET); and the patient service activities of the Child Development and Rehabilitation Center (CDRC). For economic impact, the university tracks its employment levels. It also reports on (though does not quantify) OHSU's support to the local and state economy, on its biotechnology contributions, and on the economic dividends of its research.

Governor's Budget

The Governor's balanced budget proposal includes $93.7 million in direct state support for OHSU's education and clinical programs, and for the CDRC. This represents a decline of $10.9 million (or 10.5%) from the level approved in the 2001 Session, and a decline of $2.7 million (or 2.8%) from the level of funding that remained for the 2001-03 biennium after the 2002 fifth special session. The recommended funding level is also 16.3% below the funding provided in the 1999-01 biennium. The Governor does not identify specific programs for reduction. The support remains in the form of a grant for the institution's education and clinical programs, and for the CDRC. The OHSU Board of Directors would determine how these funds will be distributed among various programs as it works to conform to its five-year financial plan.

The Governor's balanced budget also includes an additional $106.3 million of bond proceeds for the Oregon Opportunity program investments. These proceeds, along with the proceeds already transferred to OHSU in 2001-03, will give the institution the maximum $200 million of proceeds approved by voters at the May 2002 election. The state will not provide additional bond proceeds for the Oregon Opportunity program in subsequent biennia.

The OHSU budget is also affected by funding levels in the Governor's balanced budget for Medicaid programs. A brief discussion of these impacts is included in the following program area discussion.

OHSU – Education and General/Hospitals and Clinics/CDRC

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	111,896,927	3,300,000	3,180,764	93,679,467
Other Funds	0	101,313,769	93,227,660	0
Total	**111,896,927**	**104,613,769**	**96,408,424**	**93,679,467**

Program Description

The instructional activities of the University are organized into four schools – the Schools of Medicine, Dentistry, Nursing, and the OGI School of Science and Engineering. The University offers professional degrees in medicine, dentistry and pharmacy; baccalaureate degrees in nursing, dental hygiene, medical technology, radiation therapy and physician assistant studies; graduate degrees in biomedical science specialties, public health, and nursing; and certificate programs in nursing, paramedic training and dietetics. The University had a enrollment in Fall 2002 of 2,592 students, and grants over 700 degrees and certificates each year. Most academic programs are offered on the main and west campuses, but degree programs are also offered in Nursing on the campuses of Eastern Oregon University, Southern Oregon University, the Oregon Institute of Technology, and the Oregon State University Cascades Campus. The university does not use any state support dollars for the OGI School of Engineering and Science.

The University Hospitals and Clinics are the clinical teaching facilities of the university. The facilities include OHSU Hospital, the Doernbecher Hospital for Children (part of the OHSU Hospital complex), and approximately 85 sub-specialty and primary care clinics. The hospital has 401 staffed inpatient beds. Clinic facilities are primarily located on the campus, though OHSU has established a network of primary care clinics throughout the Portland metropolitan area. The hospitals handle over 23,000 patient discharges, about 38,000 emergency room visits, and about 2,900 births each year. The clinics handle close to 550,000 outpatient visits per year. The hospitals and clinics handle about twice the statewide average of indigent care cases. In the 1999 Session, the Legislature identified supporting access to medical care by under-served populations and non-sponsored patients as one of the purposes of state funding, and directed OHSU to utilize its state funds to best achieve this and other purposes.

The Child Development and Rehabilitation Center (CDRC) identifies persons under age 21 in Oregon with disabilities, coordinates clinical services for these individuals, and collaborates with sister agencies in case management. CDRC also provides education to health professions working with the disabled, and funds research on the health of the disabled. CDRC will diagnose and treat any person under 21 who has or is suspected of having a handicapping condition. The initial evaluation is provided at no out-of-pocket cost. The Center operates clinics in 18 Oregon communities, and serves approximately 6,600 children each year.

Revenue Sources and Relationships

The primary source of non-state funds for the educational programs is tuition. Other sources include sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. State funds are distributed to the University's three health science schools, to the Biomedical Information Communication Center, and for facilities and support services.

Other Funds in the Hospital and Clinics program were never limited by the Legislature. The primary source of these funds are payments for services by patients and third party payers. These revenues have not been included in the state budget since OHSU became a public corporation.

The CDRC receives fees for services (including payments from the Office of Medical Assistance Programs), and federal funds from the Maternal and Child Health Block Grant. State funds cover approximately 26% of the CDRC budget.

Budget Environment

The Education and General Program (referred to internally at OHSU as the "University" budget) does not generate net revenue to the institution. This is standard for educational enterprises of this type throughout the country, which all rely on clinical care revenues, public support, or private endowments to operate. OHSU maintains its educational programs with the assistance of General Fund support and the net revenues generated by its hospitals and clinics. The three schools vary in the degree to which state funds support their budgets. State funds cover only 9% of the School of Medicine's budget, but cover 40% of the School of Nursing's budget. The figure for the School of Dentistry is 33%. The Oregon Graduate Institute of Science and Technology (OGI) receives some state support from the Oregon Engineering Education Investment Fund, which is supported in the Department of Higher Education Budget, but no state support from the funds appropriated directly for OHSU.

Governor's Budget

The Governor's balanced budget proposal includes $93.7 million in direct state support for OHSU's education and clinical programs, and for the CDRC. This represents a decline of $10.9 million (or 10.5%) from the level approved in the 2001 Session, and a decline of $2.7 million (or 2.8%) from the level of funding that remained for the 2001-03 biennium after the 2002 fifth special session. The Governor does not identify specific programs for reduction. The support remains in the form of a grant for the institution's education and clinical programs, and for the CDRC. The OHSU Board of Directors would determine how these funds will be distributed among its various programs.

OHSU has been significantly effected by reductions in Medicaid funding that were made to rebalance the state budget in the five 2002 special sessions and that are proposed in the Governor's balanced budget. Because OHSU serves a disproportionate share of Medicaid patients, funding changes in that program have a major effect on its revenue. The university estimates that these changes will reduce clinical revenues by $6.2 million in the 2001-03 biennium and by $39 million in the 2003-05 biennium, thereby far outweighing the $10.9 million decline in direct state support. Of the various Medicaid reimbursement changes, the elimination of presumptive eligibility will have the single largest impact on OHSU revenue ($15 million). Previously, patients receiving services but not on the Oregon Health Plan had their expenses covered if they applied and were found to have been eligible. Now, the Oregon Health Plan only covers services after patients have enrolled.

OHSU – Oregon Opportunity Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	0
Other Funds	0	1	93,651,594	106,298,400
Total	**0**	**1**	**93,651,594**	**106,298,400**

Program Description

In 2001, the Legislature approved state funds in support of the Oregon Opportunity program. The Oregon Opportunity program is the name OHSU has given to a group of investments, totaling $500 million, to expand the university's programs in genetic and biomedical research and its rural health programs. The 2001 Legislature approved $200 million in bond proceeds in support of this effort, contingent on subsequent voter approval of a ballot measure to authorize general obligation bonds for this purpose. Voters approved that authorization in May 2002. These bond proceeds were to be matched with $300 million in donations. A total of $178 million in donations has been raised to date.

The combined state and private funds support the construction of a 228,000 square-foot biomedical research facility on the main campus, and the recruitment of an additional 71 scientists as principal investigators of sponsored research projects, along with research support and support staff for the added scientists. The funds also support purchase of a research facility on the west campus, and facilities and technology infrastructure for rural health initiatives.

With this investment added to its existing resources, OHSU plans to increase the level of its sponsored research awards by 47% (to $325 million annually) in five years. Other goals over the five-year period are to increase annual technology transfer licensing and royalty revenue by 188% (to $3.34 million), and to increase the number of Oregon companies in which OHSU holds equity from the current 3 to 27.

Revenue Sources and Relationships

State financing for the Oregon Opportunity program is generated from bonds issued under the authority of Article XI-L of the state constitution. That article authorizes general obligation bonds, with net proceeds of up to $200 million, to finance capital costs at the Oregon Health and Science University. The state will finance debt service on the bonds with funds received from the Tobacco Master Settlement Agreement (MSA).

Budget Environment

The state issued a first series of Article XI-L bonds in 2002. The bonds have a 20-year term. This series generated $93.7 million of net proceeds that were transferred to OHSU. The bond was structured so that issuance costs, underwriters discount, and debt service costs through the 2003 calendar year were financed from the bond proceeds. Beginning in 2004, debt service will be paid from Tobacco MSA funds. In the 2003-05 biennium, these payments from Tobacco MSA funds will total approximately $9.7 million.

Governor's Budget

The Governor's balanced budget supports a second issue of Article XI-L bonds as envisioned in the implementing legislation for the Oregon Opportunity program. The bonds would provide OHSU with an additional $106.3 million of net proceeds for the Oregon Opportunity program and have a 20-year term. These proceeds, together with the 2002 bond series, sum to $200 million. Debt service, issuance costs, and underwriters discount on the second bond series will be paid during the 2003-05 biennium by a combination of bond proceeds and Tobacco MSA funds. In future biennia, however, debt service will be paid entirely with Tobacco MSA funds.

OHSU – Bond-related Costs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	0
Other Funds	0	2	5,087,785	24,794,966
Total	**0**	**2**	**5,087,785**	**24,794,966**

Program Description

The Bond-related Costs program finances the state's costs relating to bonds issued for the Oregon Opportunity program. These costs include debt service, underwriters discount, and issuance costs.

Revenue Sources and Relationships

Bond-related costs are primarily paid from money the state receives from the Tobacco Master Settlement Agreement (MSA). One series of bonds were issued during the 2001-03 biennium, and a second (and final) series is planned for 2003-05. In the biennium of their issuance, a portion of the debt service costs are paid out of the bond proceeds. Actual issuance and discount costs are also paid out from bond proceeds before transfer of remaining funds to OHSU.

Budget Environment

The state is issuing general obligation bonds for the Oregon Opportunity program under Article XI-L of the state constitution, which voters approved at a May 2002 election. Debt service on the bonds is the responsibility of the state, and will be paid for the 20-year term of the bonds. Debt service costs on the portion of the bonds that have already been issued will total $11.9 million in the 2003-05 biennium. Of this total, $2.2 million will be paid from capitalized interest (bond proceeds) and the remaining $9.7 million will be paid with Tobacco MSA funds.

Governor's Budget

The Governor's balanced budget supports a second issue of Article XI-L bonds to bring total net proceeds to OHSU up to $200 million, as envisioned in the 2001 implementing legislation for the Oregon Opportunity program. The budget supports $11.9 million in debt service costs for the first bond series, $1 million in financing costs for the second bond issue, and $11.9 million in debt service costs for the second bond series, for a total of $24.8 million in bond-related costs.

Of the $12.9 million in bond-related costs associated with the second bond series, $2.1 million will be paid from the proceeds of the second bond sale, and the remaining $10.8 million with Tobacco MSA funds.

Department of Higher Education (DHED) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	755,057,213	812,062,569	755,451,538	779,884,024
Lottery Funds	4,551,761	6,247,457	5,966,271	8,844,960
Other Funds	886,497,062	1,176,146,471	1,341,647,412	1,249,350,881
Nonlimited	1,413,451,455	1,803,802,145	1,803,802,145	1,985,931,713
Total	**3,059,557,491**	**3,798,258,642**	**3,906,867,366**	**4,024,011,578**
FTE	11,469.52	11,786.42	11,786.42	11,819.49

Federal Funds are included in the Other Funds category in the Higher Education budget. Except for Federal Funds that are included in the Other Funds expenditure limitations of the OSU public service programs (Agricultural Experiment Station, Extension Service, and Forest Research Lab), Federal Funds are included in Nonlimited in their associated program areas.

The Department of Higher Education is the state agency name for the educational institutions, governing board, central administration, support services, and public services that make up the Oregon University System (OUS). The institutions consist of the University of Oregon (UO), Oregon State University (OSU), Portland State University (PSU), the three regional universities (Eastern, Western, and Southern Oregon Universities), and the Oregon Institute of Technology (OIT). OSU has also established a branch campus in Bend, OSU-Cascades.

Governor's Budget

The Governor's balanced budget contains no General Fund support for new or enhanced programs. General Fund and Lottery Fund support for the Department is reduced by $51.7 million (or 6.2%) from the level approved in the 2001 regular legislative session, after adding funds for employee compensation costs that were appropriated to the Emergency Board in 2001 for distribution to the Department. This level of General Fund and Lottery Fund support is $36.4 million (or 4.8%) above the level of support that remained in the 2001-03 biennium budget after the five 2002 special legislative sessions and the Governor's allotment cuts.

Fundamentally, the Governor calculated the General Fund support level by financing inflation impacts on service and supply and capital outlay costs, by rolling up the costs of 2001-03 biennium salary adjustments, and by then reducing from this amount the inflated value of the reductions the Legislature approved during the 2002 second and third special legislative sessions, and then taking the reductions approved in the 2002 fifth special session and inflating and doubling these. There were certain modifications to this general approach, which are discussed in the program area discussions that follow.

The reductions are not specified, but are to be implemented at the discretion of the State Board of Education and the Oregon University System (OUS) institutions. Other Funds outside of the Education and General program are approved at projected revenue levels. Within the Education and General program, the budget accommodates tuition rate increases of 2% per annum for resident students and 3.5% per annum for nonresident students, based on the tuition rate levels that existed before campuses imposed surcharges related to the defeat of a temporary income tax increase (Measure 28) and to the Governor's allotment reductions. Tuition revenue increases generated from projected enrollment growth through the 2003-05 biennium are also technically accommodated within the budget. Together, these increases support expenditures of $90.5 million above the tuition revenue generated by the tuition rates approved in the 2001 regular legislative session budget, for the enrollments anticipated in that budget.

DHED – Education and General Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	626,164,582	674,205,931	625,370,091	649,720,822
Other Funds	600,781,345	665,745,330	725,205,739	850,551,113
Nonlimited	743,947,658	1,120,279,788	1,120,279,788	1,135,532,703
Total	**1,970,893,585**	**2,460,231,049**	**2,470,855,618**	**2,635,804,638**
FTE	8,756.50	9,079.29	9,079.29	8,970.23

Program Description

The Education and General program includes the instruction, research, public service, and operating costs of the seven institutions that make up the Oregon University System (OUS), plus the Oregon Center for Advanced Technology Education, and the centralized administration and support services of the system. (The operations of self-supported campus auxiliaries such as housing and health services, however, are shown in the Other Services (Nonlimited) program.) The Education and General Program accounts for 82% of the Department's state-supported (General Fund plus Lottery Funds) expenditures. The Legislature appropriates funds and provides expenditure limitations for the Department as a whole rather than to the individual institutions. The State Board of Higher Education then allocates those funds to the various institutions and programs in annual budgets. Last session, the Legislature financed the implementation of a new higher education budget model, known as the Resource Allocation Model (RAM). The RAM allocates state support dollars primarily on an enrollment basis, and ends the prior practice of pooling tuition revenue among institutions.

Revenue Sources and Relationships

The primary source of Other Funds for the Education and General Program is tuition. Other sources include other student fees such as Resource Fees and Energy Surcharge fees, sales and charges for services, indirect cost recovery on grants, and other miscellaneous revenue. Other Funds subject to expenditure limitation are retained by the campuses generating those revenues, with the exception of a small portion of indirect cost recovery monies that are transferred to the Chancellor's Office. The General Fund appropriation is distributed to the campuses and to centralized services by the Resource Allocation Model (RAM). The RAM distributes approximately 85% of the General Fund that campuses receive for their Education and General programs on a direct enrollment basis. The campuses receive funding for total student enrollment on a full-time equivalent (FTE) basis. The funding amount varies by program type. These varying enrollment-funding amounts are commonly called "cell values." The remaining 15% of General Fund support to campuses, and all General Fund support for centralized services, is distributed in the RAM through targeted programs. Targeted programs include all funding that is not on a direct enrollment basis. Targeted programs are designed to address the costs of the system that are not directly related to enrollment levels.

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

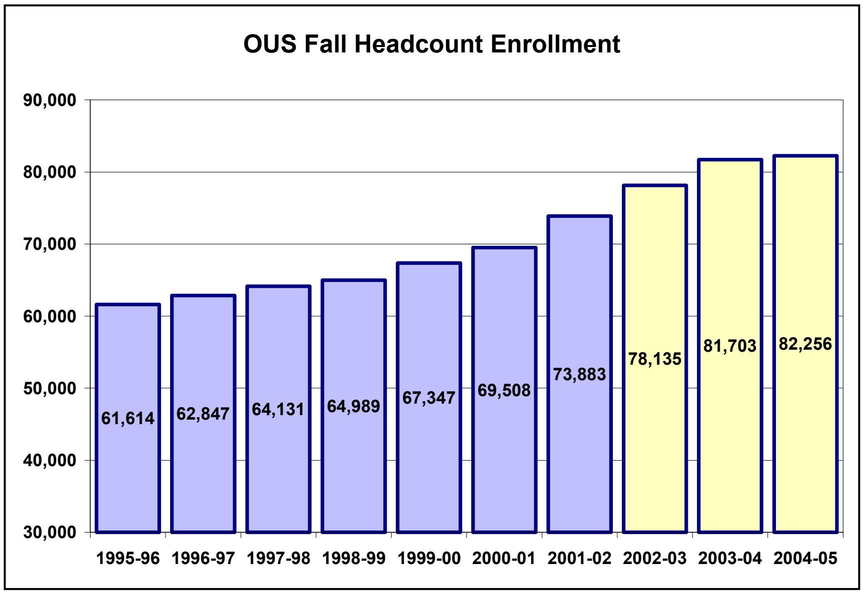
Budget Environment

State support for the Department of Higher Education was reduced greatly after the passage of Measure 5 in 1990. The state met the requirements to support K-12 education by limiting funding for many programs, but OUS was particularly affected. State support for the Education and General program not only failed to grow enough to cover inflation, but it actually declined in nominal dollars. The Legislature reversed this trend with the 1997-99 budget, financing new programs in engineering, new partnerships with community colleges, efforts to recruit and retain high quality faculty, and a tuition freeze for Oregon undergraduates.

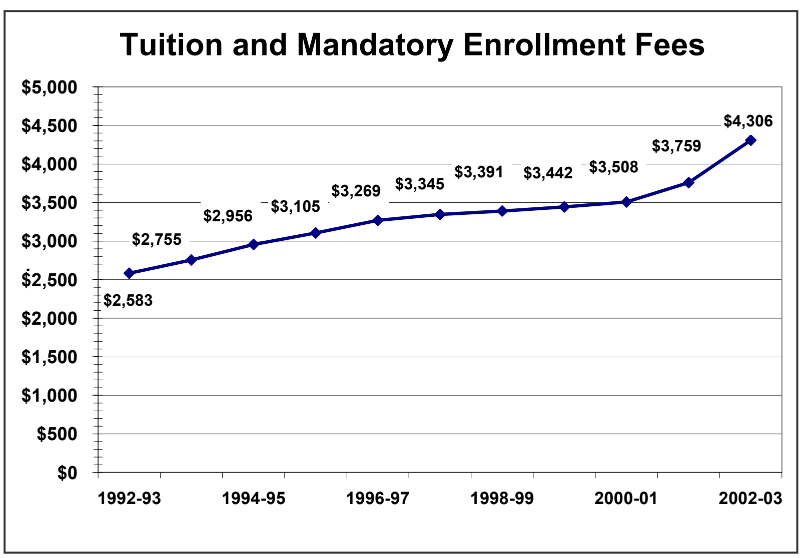
In 1999, the Legislature increased General Fund support of the Education and General Program by 22%. This included $106.8 million of General Fund enhancements. Of this total, $15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident undergraduates. The funds simply replaced increases in tuition that would have otherwise supported the current service level budget. The 1999-01 budget also designated $5 million for engineering education enhancements. But the remaining enhancements, totaling approximately $86.4 million, were provided to be allocated through the new Resource Allocation Model and to support the implementation of that model. The Legislature required OUS to fully implement the RAM at the level of funding it provided.

The new budget allocation model acts to promote institutional effectiveness and entrepreneurship by tying financial resources more directly to the number of students served. Under the prior system, where most tuition revenues were pooled, an institution that successfully attracted additional students retained little additional revenue. In the RAM, the school retains all of this tuition, thereby increasing the financial reward of attracting students. The RAM also makes each campus' General Fund support level more sensitive to enrollment than had previously been the case, thereby amplifying the financial rewards associated with attracting students even more.

Enrollment growth rates have increased since the RAM was implemented, although it is not possible to know to what extent, if any, the new budget model is responsible for this growth. Enrollment growth is estimated to have exceeded 5.8% in each of the last two years. Enrollment is now at record levels. This reverses an earlier decline during the 1990's that occurred when tuition rates were increased rapidly as a response to Measure 5. This year enrollment not only exceeds the 1990-91 level (the last year prior to Measure 5), but it also exceeds the all time record established back in 1980-81. This growth is occurring as a result of the increasing numbers of high school graduates each year in Oregon, and because a greater proportion of those graduates are choosing to attend an OUS school. The freshman participation rate, which measures resident first-time freshmen as a percentage of the state's number of high school graduates the previous June, has now returned to its all time peak rate of 23%. This freshman participation rate was last realized in the 1987-88 academic year, and the rate had fallen to a low of 19.2% in the early 1990s. The two trends of larger high school graduating cohorts and high freshman participation rates are expected to continue. OUS projects enrollment growth to continue in each of the next two years.



Tuition and other mandatory enrollment fees increased rapidly in the early 1990's. Average mandatory enrollment fees for full-time resident undergraduate students is shown in the table below. Mandatory enrollment fees include tuition and other required fees such as building fees, incidental fees, health service fees, and technology fees. These fees increased from $1,864 in 1990-91 to $3,269 in 1996-97, an increase of 75.4%. In 1997, the Legislature addressed this issue by financing a tuition freeze for resident undergraduates. This freeze was extended in 1999 for an additional two years. Through the 2000-01 academic year, mandatory fees then rose an average 7.3%, but this increase was due entirely to increases in the non-tuition mandatory fees.



The 2001-03 legislatively adopted budget allowed for a 4% tuition increase in the 2001-02 academic year, and a 3% tuition increase in the 2002-03 academic year. Although all campuses limited their tuition increase for resident undergraduate students to 4% in the 2001-02 academic year, they increased their non-tuition mandatory fees at a much greater rate, and most campuses imposed a new Energy Surcharge Fee. As a result, total mandatory enrollment fees increased by an average of 7.2% (for resident undergraduate students) in the 2001-02 academic year, almost equal in percentage terms to the increase over the prior four years combined. In the 2002-03 academic year, fees were increased twice: once at the beginning of the year as traditionally occurs, and a second time in the Spring Term when campuses imposed tuition surcharges to partially offset the impact of General Fund reductions required because of the defeat of a proposed temporary income tax increase (Measure 28), and General Fund cuts imposed by allotment reductions to prevent deficit. By the time the Spring Term surcharges were imposed, the mandatory enrollment fees for resident undergraduate students were, on average, 14.5% above the 2001-02 levels. Mandatory enrollment fees for resident undergraduates are shown in the above table.

Governor's Budget

The General Fund support level in the Governor's balanced budget is calculated to take the reductions made to the Education and General program in the 2002 special legislative sessions and make them permanent. The Governor's budget also includes additional reductions beyond these. There are no General Fund enhancements. The 2002 second special session reduction of $38.2 million in General Fund was subtracted from the base budget level. The 2002 third special session reductions in personal services compensation and in information technology are rolled up to a $7.5 million General Fund cut, and the 2002 fifth special session reduction is multiplied by a factor of 2.5 for a $63.6 million General Fund reduction in the 2003-05 biennium. The fifth special session cuts are not identified for any specific programs in the Governor's budget and will, therefore, be distributed among programs by the Department. General Fund was reduced an additional $2.34 million, and the Other Funds expenditure limitation was reduced $2.54 million, to eliminate funding for step (merit) increases for classified employees. Finally, an additional $8.34 million General Fund reduction was made, although the reduction was fund shifted to Other Funds resulting in no net decrease in total funding. This fund shift is to be supported by a 2% per annum tuition rate increase on resident students. That rate increase is projected to generate $16.69 million in total, leaving the Department with a net increase of $8.34 million in funds even after the fund shift is considered.

In addition to the 2% per annum tuition rate increase for resident students, the Governor's budget includes a 3.5% per annum tuition rate increase for nonresident students. The Other Funds expenditure limitation is increased $22.4 million to allow expenditure of the revenue from this increase. Also added to the Other Funds expenditure limitation are $34.8 million to accommodate tuition and fee revenue resulting from 2001-03 biennium enrollment growth and rate increases that were not anticipated in the 2001 regular session, but that were subsequently approved by the Emergency Board, and $16.6 million to accommodate revenue increases expected (at the Governor's approved tuition rates) from 2003-05 enrollment growth over 2002-03 levels. Finally, there is a $30.7 million increase to account for the re-categorization of Graduate fee remissions as expenditures. This increase does not represent an actual expenditure increase – only an accounting change.

The combined effect of these General Fund reductions and Other Funds (primarily tuition and fee) expenditure limitation increases is to provide a General Fund appropriation that is $44.8 million (or 6.5%) below the level approved during the 2001 regular session before special session cuts. The increases in tuition and fees more than offset this, however. Combined, General Fund and Other Funds in the limited budget are $109.3 million (or 8.0%) above the level approved during the 2001 regular session. The net position adjustments from these various changes in the limited budget is a reduction of 162 positions (162.16 FTE).

The Governor's budget does not, however, provide sufficient Other Funds expenditure limitation to allow all projected tuition and fee revenue to be spent. This is not by design, but occurs because the limitation is calculated on the basis of tuition rate increases of either 2% per year, or 3.5% per year, above the levels in place at the start of the 2002-03 academic year. Subsequent to the development of the Governor's budget, however, campuses imposed tuition surcharges to offset a portion of the impact of General Fund reductions that needed to be taken as a result of the failure of the Measure 28 income tax increase and of an allotment reduction to reduce deficit. These surcharges well exceeded the increases in the Governor's budget, and the State Board of Higher Education has approved making them permanent. Furthermore, the Board has prospectively approved additional tuition rate increases for 2003–04 and 2004-05 academic years.

The Department intends to maintain reductions taken during the 2002 special sessions to the targeted programs under the Resource Allocation Model. The additional General Fund reductions in the Governor's budget are taken through pro-rated reductions in funding campuses receive on a per-enrollment basis (i.e., in the form of "cell value" reductions). The Board has approved setting cell values at 72.19% of the peer institution values to distribute the funding available in the Governor's budget at the 2002-03 enrollment levels. This means that, effectively, if institutions increase their enrollments above their 2002-03 enrollment, they will not receive additional General Fund for the additional students, unless other institutions fall short of their 2002-03 enrollments.

DHED – Fee Remissions

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	76,840,000	89,590,000	0
FTE	0.00	0.00	0.00	0.00

Program Description

Fee remissions are tuition and fee reductions or waivers granted to students under a number of programs. They fall into two broad categories: Graduate and Programmatic. Graduate fee remissions are awarded in part of compensation to graduate students employed and teaching or research assistants. Programmatic fee remissions are typically (though not exclusively) awarded to undergraduate students and are awarded to achieve educational diversity, to provide need-based support, or to reward academic or athletic merit.

Prior to the 2001-03 biennium, fee remissions were considered a reduction in revenue and not an expense. There were no expenditures identified. In the 2001-03 biennium, fee remissions were accounted as an expense, rather than as a reduction in revenue. Beginning with the 2003-05 biennium, the treatment of fee remissions is changing yet again (these changes were necessitated by changes in higher education accounting standards). In the 2003-05 budget, Programmatic fee remissions are again accounted as reductions in revenue. Graduate fee remissions continue to be identified as expenditures, but are included within the Other Funds expenditure limitation of the Education and General program area. Fee Remissions have been eliminated as a separate program area. In accordance with a recommendation of the Joint Legislative Audit Committee in December 2000 that the Department expand its reporting of tuition and fee remission policies to the Legislature, however, fee remissions will continue to be reported to the Legislature, including increases in fee remissions above the level in the legislatively adopted budget.

Budget Environment

Fee remissions have increased substantially in recent years. Programmatic fee remissions have increased 75% in the last five years to an estimated $29.5 million per year, and are equal to about 9.7% of tuition revenue. Graduate fee remissions have increased 46% over the same period to approximately $19.3 million per year. An estimated 17,000 students received Programmatic fee remissions, and an estimated 3,500 received Graduate fee remissions, in the 2002-03 academic year.

Governor's Budget

Fee remissions are no longer shown in this separate program area. The Governor's budget, however, supports $58.8 million of Programmatic fee remissions, and $41.2 million of Graduate fee remissions, in the 2003-05 biennium. Because the tuition rates assumed in the Governor's budget are lower than the rates actually being imposed and proposed, campuses will likely award fee remissions in excess of the levels in the Governor's budget absent direction to do otherwise.

DHED – Agricultural Experiment Station

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	53,289,532	56,053,393	51,774,129	53,215,953
Other Funds	10,317,290	15,105,886	15,550,572	16,561,819
Nonlimited	38,413,217	50,218,921	50,218,921	52,563,479
Total	**102,020,039**	**121,378,200**	**117,543,622**	**122,341,251**
FTE	653.56	653.56	653.56	618.41

Program Description

The Agricultural Experiment Station was organized in 1888 and conducts research and demonstrations in the agricultural, biological, social, and environmental sciences. Research is conducted at a central station at Corvallis and at ten branch stations in major crop and climate areas of the state.

Revenue Sources and Relationships

Historically, Other Funds subject to expenditure limitation have come primarily from sales and service fees, with some indirect cost recovery on federal grants, interest earnings, and miscellaneous income. The Experiment Station receives federal funds (reported as Other Funds) through the Hatch Act. Nonlimited gifts, grants, and contracts will provide over $52.6 million for Experiment Station research in the 2003-05 biennium.

Budget Environment

In 1999, the Legislature approved an $8.2 million expansion of the Experiment Station's research activities, increasing state support over 18%. In 2001-03, the funding of these expanded programs was continued. During the 2002 special legislative sessions, General Fund support to the Station was reduced by over $5 million.

Governor's Budget

The General Fund support level in the Governor's balanced budget is calculated to take the reductions made to the Agricultural Experiment Station program in the 2002 special legislative sessions and make them permanent. The Governor's budget also includes an additional reduction. There are no General Fund enhancements. The 2002 second special session reduction of $2.85 million in General Fund was subtracted from the base budget level. The 2002 third special session reductions in personal services compensation and in information technology are rolled up to a $528,109 General Fund cut, and the 2002 fifth special session reduction is multiplied by a factor of 2.2 for a $4.27 million General Fund reduction in the 2003-05 biennium. The fifth special session cuts are not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Station. Finally, General Fund was reduced an additional $152,409, and the Other Funds expenditure limitation was reduced $40,514, to eliminate funding for step (merit) increases for classified employees.

The combined effect of these reductions is to provide a General Fund appropriation that is $3.8 million (or 6.7%) below the level approved during the 2001 regular session before special session cuts. Because no tuition revenues accrue to the Agricultural Experiment Station budget, Other Fund revenue growth is modest. Unlike in the Education and General program – where Other Fund (primarily tuition and fee revenue) increases more than offset the General Fund reduction– here the combined General Fund and Other Funds in the limited budget are $2.4 million (or 3.3%) below the level approved during the 2001 regular session.

DHED – Extension Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	36,349,516	38,607,292	35,756,595	37,317,496
Other Funds	21,216,040	22,420,111	27,988,320	29,778,965
Nonlimited	10,715,226	15,850,267	15,850,267	16,818,547
Total	**68,280,782**	**76,877,670**	**79,595,182**	**83,915,008**
FTE	450.12	450.12	450.12	503.09

Program Description

The Extension Service is the educational outreach arm of OSU as Oregon's Land Grant and Sea Grant university. Extension faculty on campus and in county offices throughout the state work with researchers and volunteers to develop and deliver non-credit educational programs based on locally identified needs. Two-thirds of Extension faculty are assigned to county locations. *Extension Specialists* are OSU faculty members who develop educational programs and serve as technical resources for county-delivered programs. *Extension Agents* are OSU faculty assigned to county field locations. Generally, counties provide office space and operating expenses, including support staff. Programs are delivered with the assistance of over 30,000 volunteers.

Revenue Sources and Relationships

The Extension Service is funded cooperatively from federal, state, county, and private sources. Federal Funds are primarily from the U.S. Department of Agriculture through the Smith-Lever Act. Lottery Funds were added in 1993 to partially offset a 20% reduction in General Fund support, and supplemented in 1995 to flat fund the Extension Service. In 1997, all state support was transferred back to the General Fund. Nonlimited funds include gifts and sponsored research financed by the federal government, private industry, and other private groups.

Budget Environment

In 1999, the Legislature approved a $3.65 million expansion of the Extension Service's service activities, increasing state support by 11%. In 2001-03, the funding of these expanded programs was continued. During the 2002 special legislative sessions, General Fund support to the Extension Service was reduced $3.5 million.

Governor's Budget

The General Fund support level in the Governor's balanced budget is calculated to take the reductions made to the Extension Service program in the 2002 special legislative sessions and make them permanent. The Governor's budget also includes an additional reduction. There are no General Fund enhancements. The 2002 second special session reduction of $1.97 million in General Fund was subtracted from the base budget level. The 2002 third special session reductions in personal services compensation and in information technology are rolled up to a $351,121 General Fund cut, and the 2002 fifth special session reduction is multiplied by a factor of 2.2 for a $2.99 million General Fund reduction in the 2003-05 biennium. The fifth special session cuts are not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Service. Finally, General Fund was reduced an additional $130,848, and the Other Funds expenditure limitation was reduced $76,847, to eliminate funding for step (merit) increases for classified employees.

The combined effect of these reductions is to provide a General Fund appropriation that is $2.05 million (or 5.2%) below the level approved during the 2001 regular session before special session cuts. Although no tuition revenues accrue to the Extension Service budget, Other Fund revenue growth appears robust, primarily due to the addition of a $5 million Other Funds expenditure limitation increase first approved for the 2001-03 biennium in the 2002 third special session. This limitation increase in designed to accommodate increased county contributions and increased federal revenues for Homeland Security research. Including this addition, the Governor's budget shows combined General Fund and Other Funds in the limited budget increasing by $5.3 million (or 8.6%) above the level approved during the 2001 regular session. In reality, however, the additional funds are not being realized as anticipated. Furthermore, the Extension Service financed a number of Other Funds expenditures with fund balances during the 2001-03 biennium, and the Service faces significant program reductions in 2003-05 at the Governor's level of funding.

DHED – Forest Research Laboratory

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,069,471	5,551,929	5,086,699	5,240,380
Other Funds	6,149,189	8,908,284	9,105,921	9,782,197
Nonlimited	19,287,514	22,886,750	22,886,750	24,112,272
Total	**30,506,174**	**37,346,963**	**37,079,370**	**39,134,849**
FTE	185.55	179.66	179.66	197.76

Program Description

The Forest Research Laboratory at OSU was established by the Oregon Legislature in 1941. Research is organized into six program areas: Forest Regeneration, Forest Productivity, Protecting Forests and Watersheds, Evaluating Forest Policies and Practices, Wood Processing and Product Performance, and Research Support. A 15-member statutory committee establishes the research priorities of the Laboratory. This Research Advisory Committee has nine members from the forest industry, including at least one small woodlot owner; three lay persons; the Oregon State Forester; the U.S. Forest Service Regional Forester; and the State Director of the Bureau of Land Management.

Revenue Sources and Relationships

The Laboratory is supported by state, federal, and forest industry resources. Other Funds subject to expenditure limitation come from the Forest Products Harvest Tax; sales and service charges; and from Federal McIntire-Stennis funds. Nonlimited expenditures from grants and contracts support over $24 million of the Laboratory's costs.

Budget Environment

In 1999, the Legislature approved an $1 million expansion of the Forest Research Laboratory's research activities, increasing state program support by 25%. In 2001-03, the funding of these expanded programs was continued. During the 2002 special legislative sessions, General Fund support to the Laboratory was reduced by almost $500,000.

Governor's Budget

The General Fund support level in the Governor's balanced budget is calculated to take the reductions made to the Forest Research Laboratory program in the 2002 special legislative sessions and make them permanent. The

Governor's budget also includes an additional reduction. There are no General Fund enhancements. The 2002 second special session reduction of $282,085 in General Fund was subtracted from the base budget level. The 2002 third special session reductions in personal services compensation and in information technology are rolled up to a $93,699 General Fund cut, and the 2002 fifth special session reduction is multiplied by a factor of 2.27 for a $433,555 General Fund reduction in the 2003-05 biennium. The fifth special session cuts are not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Laboratory. Finally, General Fund was reduced an additional $8,348, and the Other Funds expenditure limitation was reduced $13,620, to eliminate funding for step (merit) increases for classified employees.

The combined effect of these reductions is to provide a General Fund appropriation that is $401,000 (or 7.1%) below the level approved during the 2001 regular session before special session cuts. Because no tuition revenues accrue to the Forest Research Laboratory budget, Other Fund revenue growth is modest. Nonetheless, as in the Education and General program – where Other Fund (primarily tuition and fee revenue) increases more than offset the General Fund reduction– here the combined General Fund and Other Funds in the limited budget also increases, by $473,000 (or 3.3%), above the level approved during the 2001 regular session. The level of Other Fund revenue in the Governor's budget requires an extension of the sunset of the Forest Products Harvest Tax.

DHED – Sports Action Lottery

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	4,551,761	5,408,887	5,408,887	4,712,936
FTE	0.00	0.00	0.00	0.00

Program Description

The Sports Action lottery game was authorized by the 1989 Legislature. Eighty-eight percent of the proceeds from the game, not to exceed $8 million annually, are used to finance intercollegiate athletics. The remaining 12% are for graduate student scholarships that are not awarded on the basis of athletics. Of the athletic funds, 70% must be used for non-revenue producing sports, and at least 50% must be used for women's athletics.

Revenue Sources and Relationships

All revenue is from proceeds of the Sports Action lottery game.

Budget Environment

The expectations, during the 2001 Session, of a large increase in Sports Action lottery revenue in the 2001-03 biennium, did not materialize. Revenue increased to $4.87 million and not the $5.4 million projected. The Sports Action lottery, along with other non-video lottery games, is under pressure from both the Lottery's own video games and other competitors such as Indian gaming.

Governor's Budget

The expenditure limitation is set equal to the projected revenue, and represents a small decline from actual 2001-03 biennium revenue levels.

DHED – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	18,317,636	21,547,547	21,547,547	21,869,520
Lottery Funds	0	838,570	557,384	4,132,024
Nonlimited	72,142,007	68,126,333	68,126,333	88,431,180
Total	**90,459,643**	**90,512,450**	**90,231,264**	**114,432,724**
FTE	0.00	0.00	0.00	0.00

Program Description

This program reflects the cost of debt service on capital construction projects financed with bonds. General Fund appropriations are made to pay the debt service on Article XI-G bonds, traditionally used to finance instructional and public service facilities. In 2001, the Legislature approved the use of Lottery Bonds to finance campus capital projects for the first time. Revenues from self-supporting programs and student building fees are the sources of debt service for repayment of Article XI-F(1) bonds, which are traditionally a revenue source for construction of student unions, dorms, parking structures, and similar self-supporting programs. The Department has recently used Article XI-F(1) bonds to construct certain instructional facilities as well, such as the new Law Center at the University of Oregon.

Budget Environment

Debt service is a fixed cost that must be paid to avoid defaulting on the bonds. The General Fund portion is the debt service payment on Article XI-G bonds. The Lottery Fund portion pays debt service on Lottery Bonds, which were first issued for Department capital projects in the 2001-03 biennium. Debt service payments on Article XI-F(1) bonds are not limited in the budget and paid by auxiliary revenues (including the Student Building Fee), and in some cases by university general operating budgets.

Governor's Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted at a 16.2% increase over the 2001-03 biennium level. This reflects debt service added for approximately $115 million of new Article XI-G and Lottery bonds issued during the 2001-03 biennium for capital construction projects. This understates the actual growth in debt service costs, however. The Governor's budget, because of an error, contains approximately $4.5 million less General Fund than is needed to pay debt service on outstanding Article XI-G bonds. When this amount is added in, actual state-paid debt service costs are shown to have increased 36.4% over the prior biennium level.

DHED – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	15,866,476	16,096,477	15,916,477	12,519,853
Other Funds	248,033,198	387,126,860	474,206,860	342,676,787
Total	**263,899,674**	**403,223,337**	**490,123,337**	**355,196,640**
FTE	0.00	0.00	0.00	0.00

Program Description

The Capital Construction budget includes major construction, renovation, and land acquisition costs. The budget also finances ongoing expenses to address deferred maintenance and to modernize and repair academic facilities.

Revenue Sources and Relationships

Traditionally, the construction, renovation, and acquisition of instructional and public service buildings have been financed equally by the General Fund and Article XI-G general obligation bond proceeds. More recently, these facilities have been generally financed by donations and Article XI-G bonds. The donations are categorized as Other Funds in the budget, even though they are technically transferred to the General Fund so that they can be used to match Article XI-G bonds. Student unions, dorms, parking structures, and similar projects are generally financed from auxiliary enterprise balances and the proceeds of Article XI-F(1) bonds. In addition, revenue from self-supporting projects, gifts, grants, and donations are a major funding source for capital construction. Recently, Article XI-F(1) bonds have been used for instructional buildings (the new Law Center at the University of Oregon, the Fourth Avenue Building at Portland State University are examples). Deferred maintenance (academic modernization and repair) – which does not include construction or major renovation projects – is also financed in the Capital Construction budget.

Budget Environment

The 2001 Legislature appropriated $12.1 million of General Fund in the Capital Construction program as a match for Article XI-G bonds. The resulting $24.2 million was budgeted for critical deferred maintenance (academic modernization and repair) and to begin to seriously address the Department's backlog of maintenance projects. Even with distance learning and other new ways of delivering services, projected enrollment growth will strain existing facilities. Nonetheless, the Department continues to focus on deferred maintenance. Many of the facilities of the Oregon University System are in a state of disrepair. The Department estimates that cumulative deferred maintenance (i.e., the cost to restore OUS facilities to proper condition) totals $400 million systemwide. The Department also estimates that expenditures of $80 million per biennium are required just to keep the system's capital facilities in their current state of repair and to avoid further deterioration. Many facilities also require academic modernization, which includes equipment modernization such as telecommunications connectivity and enhanced computer linkages.

The 2001 Legislature also approved over $103 million of state-paid bonds (Article XI-G and Lottery bonds) to finance new capital projects on a number of campuses. Lottery bonds were approved for Department capital projects for the first time.

Governor's Budget

The Governor's budget includes General Fund only in support of deferred maintenance (academic modernization and repair). This support is at the prior biennium level plus inflation. The General Fund is matched by an equal dollar amount of Article XI-G bonds. Article XI-G bonds are not approved for any other project. A total of 26 specified projects are approved on five campuses. Most of these are at least partially funded with Article XI-F(1) bonds. The budget only includes projects where Article XI-F(1) projects are financed from dedicated revenue streams. Projects that would impose debt service costs on campus operating budgets are excluded.

The complete list of proposed projects is shown in the following table:

Department of Higher Education

2003-05 Capital Construction Budget

PROJECT LIST	General Fund	Article XI-G Bonds	Article XI-F(1) Bonds	Other Revenues	Total
(1) Oregon University System					
(a) Academic modernization, capital repair, deferred maintenance, code and safety compliance	12,519,853	12,519,853	**20,000,000**	**10,000,000**	$55,039,706
(b) Miscellaneous student building fee projects			3,000,000		$3,000,000
(c) System-wide small capital projects			**6,000,000**	**6,000,000**	**$12,000,000**
(2) Oregon State University					
(a) Reser Stadium expansion			66,000,000	44,000,000	$110,000,000
(b) Memorial Union remodel, phase 1			5,500,000		$5,500,000
(c) College Inn renovation or replacement			1,000,000	11,000,000	$12,000,000
(d) Residential housing deferred maintenance upgrade/replacement			3,000,000		$3,000,000
(e) Arnold Dining Center remodel			7,000,000		$7,000,000
(f) Poling Hall remodel			9,000,000		$9,000,000
(g) New single student suites/apartments			1,000,000	11,000,000	$12,000,000
(h) Instrumentation and flow imaging lab addition				650,000	$650,000
(3) Portland State University					
(a) Smith Memorial Student Union renovations and code compliance			7,000,000		$7,000,000
(b) Athletic arena construction			5,000,000	20,000,000	$25,000,000
(c) Ondine student housing tower remodel and seismic upgrade			6,000,000		$6,000,000
(d) Helen Gordon Child Development Center rehabilitation, phase 2			**3,500,000**		$3,500,000
(e) Peter W. Stott Center recreation and fitness improvements, phase 2			4,100,000		$4,100,000
(f) Combination housing/parking structure			20,000,000		$20,000,000
(g) New housing construction, phase 1			15,000,000		$15,000,000
(4) Southern Oregon University					
Jefferson Public Radio transmitter/translator network equipment				500,000	$500,000
(5) University of Oregon					
(a) University Health and Counseling Center addition/remodel			10,080,000		$10,080,000
(b) University housing			8,500,000		$8,500,000
(c) Living Learning Center			27,000,000		$27,000,000
(d) Residence hall restoration, phase 1			2,000,000		$2,000,000
(e) Parking structure			10,920,000		$10,920,000
(f) Heart of Campus rehabilitation				850,000	$850,000
(g) Museum of Natural History addition and alterations				1,460,000	$1,460,000
(h) Allen Hall, phase 7				2,000,000	$2,000,000
(i) Alumni Center construction				21,200,000	$21,200,000
(6) Oregon State University					
College of Veterinary Medicine addition				2,200,000	$2,200,000
(7) Project reserve			**2,612,667**	**0**	**$2,612,667**
GRAND TOTALS	**$12,519,853**	**$12,519,853**	**$243,212,667**	**$130,860,000**	**$399,112,373**
# of Projects using funding source	1	1	22	13	29

DHED – Other Services (Nonlimited)

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	528,945,833	526,440,086	526,440,086	580,567,627
FTE	1,126.23	1,126.23	1,126.23	1,224.23

Excludes nonlimited expenditures of sponsored research and other grants, and Debt Service programs, which are described in sections dealing with those programs.

Program Description

The Nonlimited funds displayed here consist of: 1) self-support activities operated on an auxiliary basis such as dormitories, bookstores, parking, health centers, and food services; 2) self-support instruction; and 3) and student aid and loan repayments. The scope of self-support instruction activities was reduced during the 1999-01 biennium, when the Legislature approved providing General Fund support for most academic programs. Generally, only non-credit continuing education (distance learning) programs are still conducted on a self-support basis. Most nonlimited funds (including federal support for research) are not shown here, but are shown in the appropriate program level (Education and General, the OSU Public Services, or Debt Service), to provide a clearer picture of program costs and funding.

Revenue Sources and Relationships

Most self-supporting Nonlimited revenue sources are dedicated to a specific purpose and are independent of General Fund and limited Other Funds supported programs. The revenue sources include student aid funds, food service and other enterprise sales, dormitory fees, health service fees, and course fees for non-credit continuing education programs, among others.

Budget Environment

Projected Nonlimited expenditures appear in the budget for information purposes only. Available nonlimited funds may be spent without limitation by the Legislature. Showing the Nonlimited expenses in the budget gives a clearer picture of the Department's overall activities. Approximately 43% of all expenditures are in nonlimited programs, and approximately 25% of all higher education employees are supported by nonlimited funds. These figures refer to all nonlimited funds in the budget and not merely to the funds identified in this program area.

Governor's Budget

The Governor's budget anticipates an Other Services (Nonlimited) expenditures increase of 10.3% over the level in the 2001-03 legislatively adopted budget.

Oregon Student Assistance Commission (OSAC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	33,466,514	39,364,345	36,331,151	34,125,819
Lottery Funds	5,066,421	5,151,298	2,965,741	3,726,802
Other Funds	13,489,842	13,956,740	16,339,222	17,102,997
Federal Funds	867,253	1,412,084	1,762,084	1,425,468
Nonlimited	43,701,989	50,511,609	50,511,609	54,174,750
Total	**96,592,019**	**110,396,076**	**107,909,807**	**110,555,836**
FTE	90.50	92.21	92.21	97.17

Program Description

The Oregon Student Assistance Commission (OSAC) administers financial aid programs designed to assist students in obtaining post-secondary education in Oregon. The Commission administers both grant and loan programs. Within this mission, the agency's activities can be categorized into four broad but quite distinct functions. OSAC: 1) administers state-funded student aid programs; 2) administers the federal student loan guarantee program in Oregon and a number of other small federal programs; 3) administers a large number of private scholarships for donors who have contracted with the Commission to provide this service; and 4) houses the Office of Degree Authorization. The administrative costs associated with these programs are financed from the same fund sources as the programs themselves. Thus the state provides General Fund to the Commission to administer the state-funded programs, the federal government and fees (both identified as Other Funds in the budget) provide funds to administer the loan guarantee programs, private donors provide Other Funds to administer the Private Awards program, and both General Fund and fees finance the Office of Degree Authorization.

Approximately 95% of the state funds (General Fund and Lottery Funds) budgeted to the agency are paid out to students through the Oregon Opportunity Grant, a program that awards need-based grants to students attending Oregon post-secondary institutions (formerly called the Need Grant). The remaining state funds are used for three smaller programs that fund student expenses, and to cover the Commission's administrative costs relating to the three General Fund-supported programs.

The Commission also acts as the guarantee agency for the Federal Family Education Loan Programs (FFELP) in Oregon. The agency guarantees qualifying private-lender loans to students and their families, works with borrowers to avoid default, purchases defaulted loans from lenders, and recovers funds on those loans. The Commission also operates the highly successful Private Award program. This program centrally administers over 250 privately funded scholarship programs, with awards projected to total $21.5 million in the 2003-05 biennium.

The Office of Degree Authorization (ODA) is responsible for enforcing certain regulations relating to post-secondary education. ODA responsibilities include authorizing private institutions' degree programs and reviewing the postsecondary programs of public institutions to avoid detrimental duplication.

Revenue Sources and Relationships

The Commission began receiving Lottery Funds in the 1999-01 biennium. One-quarter of the earnings of the Education Endowment Fund were continuously appropriated to the Commission for Opportunity Grants. All of the Commission's Federal Funds are also used for Opportunity Grants.

Most of the Other Funds revenue is received under the federal loan guarantee program. The Commission receives Other Funds revenue from loan processing fees; federal reimbursements for defaulted loans that the Commission purchases from lenders; retained receipts from collections on defaulted loans; federal reimbursements for certain operating expenses; interest on accumulated loan program revenues; private award donations and charges for administering privately funded scholarship programs; and fees for reviewing degrees from private post-secondary institutions. These Other Funds (including Nonlimited) are projected to equal $79.4 million in the 2003-05 biennium. Activity in the FFELP program is increasing over the prior biennium level.

Budget Environment

In 1997, the Legislature made a major change in Opportunity Grant funding. The state constitution dedicated 15% of net lottery proceeds to the Education Endowment Fund. The Fund's principal cannot be spent but the investment earnings of the Fund can be. In 1997, the Legislature dedicated 25% of the these earnings to the Opportunity Grant program. The 1999-01 biennium was the first where the Commission spent funds from this source. All Lottery Funds in the budget are from this source, which now finance approximately 15% of the Opportunity Grant program.

In 2001, the Legislature increased funding for the Opportunity Grant by 20% over the prior biennium level. This large increase was designed to address the increasing demand for grants that resulted from rising college costs and increasing college participation rates among lower-income students. But, during the course of the five 2002 special sessions, the Legislature reduced Opportunity Grant support by $5.1 million General and Lottery Funds.

The Legislature and the people approved changes to the Education Endowment Fund during the 2001 Session and the interim following that session. These changes reduced the availability of Lottery Funds for the Opportunity Grant program. Ten percent of Education Endowment Fund earnings are invested in the Oregon Growth Account, which invests in Oregon-based companies in key industries. The 2001 Legislative Assembly redirected the earnings of the Oregon Growth Account – a portion of which had helped fund the Opportunity Grant program – to fund, instead, technology transfer efforts at Oregon public and private universities and community colleges. This has no fiscal impact in the 2003-05 biennium, as no income from the Oregon Growth Account is anticipated this biennium, but the redirection of earnings will reduce program funding in future biennia.

In addition, and with more immediate effect, the Legislature referred and the voters passed a ballot measure (Measure 19) that changed the Education Endowment Fund to an Education Stability Fund, and withdrew $150 million to offset reductions in funding to K-12 education that were taken to address the state General Fund shortfall. The effect of these actions reduce 2003-05 biennium Lottery Fund revenue to the Commission by almost half – from $7.3 million to $3.7 million. This is still an increase over the $3 million of Lottery Fund expenditures in the 2001-03 biennium, but the increase is much less than would have otherwise been the case. Over the long term, Lottery Funds for the Commission budget will continue to increase as the Education Stability Fund balance grows over time.

The federal government has established a new Direct Student Loan Program (FDLP) that bypasses lending institutions and guarantee agencies and provides funds directly to postsecondary institutions to loan to students. As a result, loan volume in Oregon's FFELP fell 50% between the 1993-94 and 1997-98 academic years. Since then, loan volume has recovered as college enrollments and loan levels have grown. Loan volumes are projected to surpass the earlier peak during the 2003-05 biennium. Furthermore, the federal government has restricted the funds that may be used to administer the loan guarantee program. As this occurs, workload is shifting from the loan processing functions to default prevention and collections functions.

The number of private awards administered by the Commission continues to grow, which increases Grant Program Other Funds administrative costs. The Commission currently administers over 250 private scholarship programs compared to 43 thirteen years ago.

Governor's Budget

The Governor's balanced budget includes approximately $37.9 million of General Fund and Lottery Funds support, a reduction of $6.7 million (or 15%) from the level approved in the 2001 regular legislative session. This funding level is also $1.1 million (or 1.8%) below the level approved four years ago by the 1999 Legislative Assembly.

The funding level for the Opportunity Grant, at $35.6 million state funds ($37.3 million Total Funds), was arrived at by increasing the level of support that remained after a Lottery Fund reduction was made in special session to reflect the new revenue forecast. The amount of state support remaining was increased by 3.5% for inflation. This adjusted amount was then reduced by the reductions approved during the 2002 fifth special session. In that special session, Opportunity Grant funding was reduced by $2.9 million. Because these cuts occurred in the second year of the biennium, they were biennialized for 2003-05 in the Governor's budget by doubling and inflating the cut by 3.5%. This results in a $6,024,269 funding reduction for the 2003-05 biennium. With an average Opportunity Grant award equaling $1,080, this is equivalent to funding for almost 5,600 awards.

The use of General Fund and Lottery Funds in the agency budget, and the changes from the levels approved during the 2001 regular session, are summarize in the table below:

General Fund + Lottery Funds

	2001-03 Regular Session	2003-05 GBB	Change
Opportunity Grant	$42,419,497	$35,617,859	-16.0%
Rural Health Services Program	434,208	449,405	3.5%
Nursing Services Program	379,933	369,670	-2.7%
Former Foster Youth Scholarship	100,000	99,360	-0.6%
Agency Operations	1,182,005	1,316,327	11.4%
Total State Support	$44,515,643	$37,852,621	-15.0%

OSAC – Administration Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	242,014	247,520	244,098	227,674
Other Funds	1,617,568	1,507,747	1,553,529	1,827,278
Total	**1,859,582**	**1,755,267**	**1,797,627**	**2,054,952**
FTE	10.00	9.00	9.00	11.00

Program Description

The Administration Division is responsible for overall administration of the agency, including policy planning, budgeting, fiscal control, and personnel management. The Division's responsibilities also include evaluating agency functions, providing public information and education concerning student financial aid programs, and administering the Oregon Scholars Program, which recognizes outstanding scholastic achievement of high school students. Not all of the agency's administrative costs are funded in this division. Administrative costs appear in all of the agency's program areas.

Revenue Sources and Relationships

The Commission uses Other Funds to pay for the portion of the Administration Division's costs that are allocated to support the Other Funds-funded programs. These Other Funds include monies the Commission receives in the Loan Program from borrowers and the federal government, as well as interest earnings from the FFELP Fund. Other Funds are also collected as charges for administering Private Award programs.

Governor's Budget

The Governor's budget approves an agency reorganization that transfers two full-time employees from the Loan Division to the Administration Division. Funding for these positions is $274,412 Other Funds. Otherwise, the budget includes adjustments for compensation cost changes, 2002-05 merit increases, and inflation. The budget does not include any rollup of special session reductions. Instead, Administration Division special session reductions are restored in the budget as they were considered of a one-time nature.

OSAC – Grants and Scholarships Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	32,802,062	38,638,785	35,669,246	33,213,804
Lottery Funds	5,066,421	5,151,298	2,965,741	3,726,802
Other Funds	1,759,370	1,426,182	2,638,192	3,430,963
Federal Funds	867,253	1,412,084	1,762,084	1,425,468
Nonlimited	17,878,209	17,251,629	17,251,629	20,914,770
Total	**58,373,315**	**63,879,978**	**60,286,892**	**62,711,807**
FTE	13.54	11.00	11.00	19.00

Program Description

The Grant Program Division administers a number of programs. The largest of these is the state-funded (and federally supplemented) Opportunity Grant. The Opportunity Grant is a program that awards need-based grants to assist students attending Oregon public and private non-profit colleges and universities, and Oregon community colleges. Almost 20,000 students received an Opportunity Grant each year during the 2001-03 biennium.

The Division administers three smaller state-funded grant programs as well. These include: a) the Rural Health Services Program, which pays the education loans of health care professionals who practice in qualifying rural health care shortage areas; b) the new Nursing Services Program, which repays the student loans of nurses who serve in designated rural areas with nursing shortages; and c) the Former Foster Youth Scholarship Program, which provides full-tuition scholarship to qualified former foster children.

The Division also operates the Private Award program. The Commission acts as a clearinghouse for the administration of over 250 privately funded scholarship programs. This program has been highly successful and rapidly growing. It assumes administrative responsibilities for donors awarding scholarships, and enables students to submit a single application for consideration in up to twelve programs.

Revenue Sources and Relationships

The largest source of Other Funds is donations received in the Private Award program. The budget does not limit the disbursements of Private Award grants, although total charges for administering these programs are subject to limitation. Donations for private awards have increased rapidly. These donations totaled $2.6 million in the 1995-97 biennium, $3.7 million in 1997-99, $12.6 million in the 1999-01 biennium, $17.8 million in 2001-03, and are projected at $21.5 million in the 2003-05 biennium. Other sources of Other Funds include funds for Robert C. Byrd scholarships, interest earnings on funds on deposit, and certain loan repayments.

Federal Funds are from the Leveraging Educational Assistance Partnership (LEAP) and Special Leveraging Educational Assistance Partnership (SLEAP) programs. LEAP and SLEAP funds are combined with the much larger state contribution to fund the Opportunity Grant. These programs require the state to provide matching funds and not reduce support levels for the Opportunity Grant to receive maximum funding. Because state support for the Opportunity Grant has not been maintained during the current General Fund shortfall, Federal Funds are projected to equal $1.4 million during the 2003-05 biennium – about $650,000 less than what would be received if the state maintained Opportunity Grant funding at 2001-02 fiscal year levels. Federal Funds finance approximately 4% of the cost of the Opportunity Grant program.

In 1997, the Legislature made a major change in Opportunity Grant funding when it dedicated 25% of the earnings of the Education Endowment Fund to the Opportunity Grant program. The Education Endowment Fund is constitutionally funded by 15% of net lottery proceeds. The 1999-01 biennium was the first where funds from this source were available to the Commission. All Lottery Funds in the budget are from this source, which have grown to finance approximately 15% of the Opportunity Grant program.

The availability of Lottery Funds for the Opportunity Grant was affected by a number of actions during the 2001-03 biennium, all of which either reduced or tended to reduce availability. The action with the most immediate impact was the voters' approval of Measure 19 at the September 2002 special election. This measure withdrew $150 million from the Education Endowment Fund to offset reductions the Legislature had made to K-12 funding to rebalance the state budget in the environment of a General Fund deficit. This withdrawal reduced the amount of earnings distributed to the Commission for Opportunity Grants by an estimated $3.6 million in 2003-05 biennium. Nonetheless, Lottery Funds will still equal $3.7 million in the 2003-05 biennium.

Budget Environment

In recent years, significant numbers of students who have been eligible to receive an Opportunity Grant have not been awarded any funds. The Commission has approved eligibility standards and award levels that cannot be financed given the amount of Opportunity Grant funds available. Because of this, the Commission sets an application cutoff date each year. Students who do not finalize their plans until later, or who do not apply by the cutoff date for other reasons, do not receive an Opportunity Grant award. This practice had most severely affected community college students who often do not register for classes until shortly before the term begins. Most of the unserved students were community college students. In 1999, the Legislature directed the Commission to revise its administration of the Opportunity Grant so that community college students would not be disproportionately affected by fund limitations. The Commission responded by setting a separate cutoff date for community college applicants that was later than the cutoff date for students at four-year institutions.

The Legislature increased funding for the Opportunity Grant by 19% (to $44.1 million) in the 2001 Session to address these issues. Funding needed to be reduced during the interim, however, to help address the state's General Fund shortfall. The Legislature avoided any General Fund reduction in Opportunity Grant funding at first, although Lottery Funds for the program were reduced $2.2 million because of a fall in earnings from the Education Endowment Fund as interest rates declined. As the state's budget situation further deteriorated, the Legislature eventually reduced General Fund support for the program in the 2002 Fifth Special Session. These actions, along with a further allotment reduction by the Governor to prevent deficit, have cut Opportunity Grant support by $5.4 million (or 12.8%) from the level that had been approved during the 2001 regular session. Even after these cuts, however, state funding of Opportunity Grants for 2001-03 remains 3.5% above 1999-01 biennium levels.

Governor's Budget

The Governor's budget includes $37.3 million for the Opportunity Grant Program ($31.9 million General Fund, $3.7 million Lottery Funds, and $1.4 million in Federal Funds). This total is 15.4% less than the $44.1 million originally adopted for the 2001-03 biennium, and 4.4% less than the $39 million that remained for the program in 2001-03 after budget cuts. The Governor's budget for the Opportunity Grant is based on the amount that remained after the 2002 second special session. At that point the only reduction in funding that had been made was to account for a decline in Lottery Funds. The Governor's budget then reduced support by approximately $6 million General Fund, which was the amount of the 2002 fifth special session cuts biennialized by a multiple of 2.07. This $6 million reduction results in the loss of approximately 5,600 Opportunity Grants during the biennium. Indeed, because of rising award amounts and reduced funding, the total number of Opportunity Grants funded in the 2003-05 biennium is approximately 33,200. This is a reduction of approximately 5,100 grants (or 13%) from the number of grants financed in the 2001-03 biennium. The funding level also results in a Federal Funds shortfall of $647,504. These are the additional Federal Funds the state would receive if the budget maintained state support at 2002-03 levels.

The Governor's budget increases funding for the Rural Health Services Program by 3.5% from the 2001 regular session level. Support for the Nursing Services Program and the Former Foster Youth Scholarship Program are reduced 2.7% and 0.6%, respectively, from the 2001 regular session levels. General Fund expenses for Grant Division administrative costs are reduced 8.3% from the 2001 regular session level. The budget also supports a package to fund 5 positions (5.0 FTE) with Other Funds for the ASPIRE program, which trains and supports volunteer advisors who provide counseling to high school students on preparing for college and applying for financial aid. ASPIRE is financed by grant funds. One of these positions would continue an existing limited-duration position and make it permanent. The other four would be newly-created permanent positions.

OSAC – Loan Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	9,010,605	10,053,712	11,098,976	10,046,832
Nonlimited	25,823,780	33,259,980	33,259,980	33,259,980
Total	**34,834,385**	**43,313,692**	**44,358,956**	**43,306,812**
FTE	57.96	63.96	63.96	52.17

Program Description

The Loan Program Division administers the Federal Family Education Loan Programs (FFELP), formerly called the Guaranteed Student Loan Program. The FFELP include the following:

- Federal Stafford Loan Program – Need-based, subsidized and non-need-based, unsubsidized student loans with annual and aggregate limits based on grade level.
- Federal PLUS Program – Low-interest loans for parents of dependent undergraduate students.
- Federal SLS Program – Loans for independent undergraduate, graduate, and professional students.

The Commission's responsibilities in FFELP are to guarantee qualifying loans made by private lending institutions. This program allows the lending institutions to make student loans that might otherwise be too risky or require a much higher interest rate for the loan to be offered. Loans are guaranteed for Oregon students who study both in-state and out-of-state, and for out-of-state students attending Oregon institutions. The Division works with borrowers who are in danger of defaulting on their loans. When a loan actually goes into default, the Commission pays off the loan to the lender (i.e., buys the loan from the lender) and then is mostly reimbursed for this cost (98%) by the federal government. The Commission must then attempt to collect on the defaulted loan.

Revenue Sources and Relationships

The Loan Program receives no state funds. Most of the Commission's Other Funds revenue is received under the federal loan guarantee program. The Commission receives Other Funds when it collects ("recovers") on defaulted student loans that it has guaranteed. The agency also receives payments for loans that it has reinsured with the federal government, and from fees it charges in the loan guarantee program. Revenue accrues from loan processing fees (1% of loan volume), and an administrative cost allowance paid by the federal government (0.65% of loan volume). The Commission also receives interest earnings on FFELP funds, but these earnings have declined as the federal government has increased the proportion of interest earnings that it retains. For loans that do default, the Commission receives a reinsurance payment from the federal government for buying the loan from the lender. The Commission also retains a portion of any subsequent recoveries on the defaulted loans and forwards the remainder to the federal government.

Budget Environment

The budget limits the Commission's expenditures for administering the loan program but does not limit what the Commission can pay to assume the loans it has guaranteed, or the payments made back to the federal government for their portion of the loan recoveries.

The loan program is being greatly affected by the creation of the Federal Direct Loan Program (FDLP). This competing program, established in 1992, allows students to borrow directly from the federal government, thus bypassing entirely the guaranteed private loans that the Commission handles. In 1996, the federal government eliminated a cap on the percentage of schools that may participate in the FDLP. Schools choose to participate in either the direct loan program or the guaranteed loan program. OHSU and OUS institutions, except for the Oregon Institute of Technology and Eastern Oregon University, have switched to the direct loan program. Most Oregon community colleges, independent colleges and proprietary trade schools have remained with the guaranteed loan program. In total, approximately 50% of new loan volume is now in the FDLP. Annual loan volume declined from $180 million it the 1993-94 fiscal year to $91 million in 1997-98. This reduces the need for staff and resources for loan processing, and in the future will reduce the need for resources for the program's collection activities. Loan volume has since recovered to $146 million in 1999-00 and is projected to increase further to $220 million by the 2004-05 fiscal year.

Governor's Budget

The Governor's budget reduces employment and funding in the Loan Division. Almost 10 FTE are eliminated to reflect a reorganization during the 2001-03 biennium that transferred positions. Further reductions are included which involve moving three positions to the Office of Degree Authorization/Policy Research and one position to the Administration Division. The budget includes $279,244 Other Funds and two new full-time positions (2.0 FTE) to hire a trainer who would train college financial aid offices on programs changes and electronic processing, and a person to market OSAC's services by providing on-site technical assistance.

OSAC – Information Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	238,121	241,716	185,474	256,699
Other Funds	937,211	868,445	894,815	1,193,894
Total	**1,175,332**	**1,110,161**	**1,080,289**	**1,450,593**
FTE	7.00	6.00	6.00	8.00

Program Description

This Division is responsible for the agency's computer systems. The Division maintains the computer hardware, software, and databases necessary to provide financial aid information to Commission staff, outside institutions, and individuals. The Commission contracts for services for its loan processing software.

Revenue Sources and Relationships

The Commission uses Other Funds to pay for the portion of the Information Services Division's costs that are allocated to support the Other Funds-funded programs. These Other Funds include monies the Commission receives in the Loan Program from borrowers and the federal government, as well as interest earnings from the FFELP Fund. Other Funds are also collected from charges for administering private award programs.

Budget Environment

In 1997, the Legislature significantly expanded the Information Services Division to allow the Commission to upgrade its main AS/400 computer system and to increase the services it offers through the Internet. The Division's employment was expanded 50%. These upgrades have allowed the agency, generally, to meet its technology needs. However, the agency does see a need for a database administrator as it moves more of its information services in house.

Governor's Budget

The Governor's budget adds one full-time position and $125,693 Other Funds expenditure limitation for a new database administrator position to operate a new in-house loan processing system. The budget also supports an proposal to shift one position to the Administration Division, and a recent agency reorganization that transferred two positions to the Information Services Division.

OSAC – Office of Degree Authorization/Policy Research

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	184,317	236,324	232,333	427,642
Other Funds	165,088	100,654	153,710	604,030
Total	**349,405**	**336,978**	**386,043**	**1,031,672**
FTE	2.00	2.25	2.25	7.00

Program Description

The Office of Degree Authorization (ODA) is charged by statute "to provide for the protection of the citizens of Oregon and their post-secondary schools by ensuring the quality of higher education and preserving the integrity of an academic degree as a public credential." To this end, ODA enforces certain regulations related to post-secondary education. The purpose of these ODA regulations is to protect consumers from diploma mills and other forms of diploma fraud, and to protect taxpayers by preventing detrimental duplication of publicly funded post-secondary programs. ODA's primary responsibility relating to private institutions is to review their degree programs for academic soundness. ODA's primary responsibility relating to public institutions is to ensure that their programs do not waste taxpayer funds by duplicating programs that already exist and that are already sufficient to meet the public's needs.

ODA also maintains information on post-secondary education in Oregon, including data on enrollments, graduations, finances, staffing, and program descriptions on all public and private degree-granting institutions in Oregon. The Office authorizes and regulates 57 private institutions that offer degree programs in Oregon, and 25 public institutions with respect to detrimental duplication issues. The program conducts approximately 24 degree authorizations in a biennium, and also responds to inquiries and complaints about substandard and fraudulent educational practices.

Since the Legislature adopted the 2001-03 biennium budget, the agency has created a Policy and Research Division to provide data collection, statistical analysis, lender and schools reviews, and general research support. This Division was created by transferring existing employees from other divisions of the agency.

Budget Environment

ODA charges fees for reviewing private institutions' proposed degrees. These fees are received as Other Funds, and are projected to total approximately $160,000 in the 2003-05 biennium. Because of unanticipated growth in the number of institutions seeking to offer degree programs in Oregon, fee collections were 53% higher than projected in the 2001-03 biennium. The budget projects that revenue will continue, in the 2003-05 biennium, at this increased level. These fees are collected to cover the cost of the ODA's degree authorization functions. General Fund is appropriated to support the ODA's other functions: reviewing public programs on detrimental duplication issues, collecting data for the federal Integrated Post-secondary Education Data System (IPEDS), and on degree validation.

Governor's Budget

The Governor's budget increases employment in the Division from the 2.25 FTE in the 2001-03 budget to 7.0 FTE for 2003-05. This increase is due to the establishment of the Policy and Research Division through the transfer of employees from other agency divisions.

Teacher Standards and Practices Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	3,353,660	3,058,334	3,404,934	3,861,514
FTE	18.00	17.50	17.75	21.00

Program Description

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

- establish rules for licensure and registration and issue licenses and registrations to teachers, administrators, school nurses, and other education personnel;
- maintain and enforce professional standards of competent and ethical performance and proper assignment of licensed educators; and
- adopt standards for college and university teacher education programs and approve programs that meet such standards.

There are approximately 60,000 educators in Oregon holding 68,000 current licenses. All new applicants for licensure, as well as all former licensees who allow their licenses to lapse for more than three years, are required to pass a criminal history and fingerprint check. In 1995, TSPC was directed to do a one-time check of the criminal history records of each educator who renews a license. That requirement had a sunset date of January 1, 2000.

Revenue Sources and Relationships

The TSPC's responsibility to ensure that students are taught by competent and ethical teachers is entirely supported by Other Funds from licensing fees paid by the regulated professionals.

HB 2095 (1999) increased the limit on fees charged for in-state applicants and renewals from $60 to $100. This legislation took effect July 1, 2001. The 2001-03 legislatively adopted budget assumed a potential increase in the fee charged to in-state applicants and renewals, effective January 1, 2002. However, the 2001 Legislature directed the agency to work with the Department of Administrative Services and the Legislative Fiscal Office during the interim to determine whether a fee increase actually was necessary to support the 2001-03 budget. Revenues this biennium have been sufficient enough to delay the increase until January 2003, when fees for in-state applicants and renewals increased from $60 to $75.

Other fees include $42 for fingerprinting, $50 for registration of certain charter school educators, $90 for applicants graduating from other than an approved Oregon educational program, $100 for an expedited license, $150 for reinstatement of a revoked license, an alternative assessment fee of up to $200, and a beginning teacher assessment fee of up to $800. The alternative and beginning teacher assessments are processes to determine professional eligibility of applicants without traditional educational backgrounds. The fee for a duplicate license is $10 and late fees are $15 per month to a maximum of $75.

Total licensing and fee revenue for 2003-05 is estimated at $3.2 million, about a 5% increase over 2001-03. The Governor's budget provides for an ending balance equivalent to 2.3 months of operating expenditures.

Budget Environment

A surge in retirements of "baby-boomer" teachers was expected to start in 2001-03 and, in fact, retirements are estimated to be about 18% higher in 2002-03 compared to 2001-02. The probability of changes to the Public Employees Retirement System may result in an even greater increase in retirements. Unlike previous years, new entries into the teaching profession may not offset retirements and other attrition given the current budget environment in K-12 education. Still, the TSPC estimates it will issue approximately 37,000 new and renewed licenses in 2003-05, about the same as in the 2001-03 biennium.

SB 124 (1997) authorized TSPC to establish a new licensure system, including continuing education requirements, to complement Oregon's Educational Act for the 21st Century. This system became operational in January 1999. In the 2003-05 biennium, TSPC plans to focus on continued implementation of the requirements under the system and on the mandate for highly qualified teaching staff under the federal No Child Left Behind Act of 2001.

A continued increase in the number and complexity of discipline cases and investigations is expected in 2003-05. This is due in part to a greater propensity by parents to file complaints over disputes with educators and school districts as well as a greater public awareness to child abuse issues. This increase is also a result of checking criminal history records through Oregon State Police and FBI fingerprints. The discipline caseload grew from 154 cases in 1997-99 to 198 cases in 1999-01, a 29% increase. In 2001-02 alone the agency had 118 cases.

Over the last several years, the agency has used technology to address several workload issues. This biennium it used Web-based applications to increase service to customers and to reduce staff time and costs. For example, applications for licensure now can be submitted online. For 2003-05, TSPC plans to implement online credit card payments for applications and to create electronic documents that are easily accessible by all staff. Even with improvements implemented to date, however, the agency continues to be challenged in providing timely customer access to staff.

Governor's Budget

The Governor's recommended budget is a 26.3% increase over the 2001-03 legislatively adopted budget and a 13.4% increase over the 2001-03 legislatively approved level. The budget includes:

- a phase-out of one-time expenditures ($153,532 Other Funds) approved by the 2001-03 Emergency Board for moving costs, a new director search and hire, temporary workload issues, start-up costs for the agency's Professional Organizations Certification Fund, and one-time grants and donations;
- a reduction of $70,000 Other Funds expenditure limitation due to savings from the use of scanning for document storage and from the replacement of contracted services with an Information Systems position;
- the addition of $69,351 Other Funds expenditure limitation for an Investigator position (0.5 FTE) and reclassification of the existing Investigator position to address increased workload related to disciplinary cases;
- the addition of $157,789 Other Funds expenditure limitation for 2 positions (2.0 FTE) to improve telephone and e-mail response time in the customer service area and to address clerical workload demands; and
- the addition of $171,440 Other Funds expenditure limitation for an Information Specialist 1 (1.0 FTE) and reclassification of an existing technology position to an Information Specialist 2 to improve on-line services to customers as well as the internal licensing process.

HUMAN SERVICES

Commission for the Blind – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,416,753	1,302,438	1,234,501	1,191,047
Other Funds	1,969,720	2,185,200	2,955,159	2,335,880
Federal Funds	8,281,081	8,439,052	8,691,575	8,413,548
Total	**11,667,554**	**11,926,690**	**12,881,235**	**11,940,475**
FTE	49.73	49.73	52.73	41.33

Program Description

The Commission for the Blind is a seven-person board, appointed by the Governor and confirmed by the Senate, which oversees a vocational rehabilitation agency that serves persons who are visually impaired or legally blind. The agency's mission is "to assist blind Oregonians in making informed choices and decisions to achieve full inclusion and integration in society through employment, independent living, and social self-sufficiency." It operates five main programs that are described below.

Rehabilitation Services is the Commission's largest program and includes vocational rehabilitation counseling and planning, training and education, job placement assistance, independent living skills training, and assistance for students making the transition from high school to either college or work. The program also provides services to persons whose vocational goal is homemaking. Typically, agency counselors and their clients develop a plan to reach a career goal. Depending upon the plan and other training resources, the agency can then purchase necessary training and assistive technology that will enhance the client's job skills. The Rehabilitation Services program also includes the Older Blind Program, which provides independent living skills training to persons 55 or older, many of whom became blind or visually impaired later in life.

The ***Business Enterprise*** program provides self-employment opportunities for blind persons in cafeteria, snack bar, and vending machine management. The federal Randolph-Sheppard Vending Stand Act, enacted in 1935, requires managers of federal buildings to offer blind persons opportunities to establish and operate cafeterias or vending machines. The act requires a state agency (in Oregon, the Commission) to license blind vendors to manage these facilities. Oregon enacted similar legislation in 1957. ORS 346.520 allows public building agency heads to decide whether the Commission may operate a business enterprise unit on their premises. In addition to licensing program participants, the agency provides training for operators as well as financial assistance with necessary equipment and repairs costing over seventy dollars.

The ***Orientation and Career Center*** provides counseling and training for persons with recent or prospective loss of sight. It primarily serves persons who became blind during adulthood. It is located in Portland and provides client housing accommodations for those living outside the Portland metropolitan area. Agency staff teaches clients independent living skills, the use of Braille, and vocational skills. In addition, the Center includes specialized assessment and training for blind and visually impaired persons who would benefit from the use of technology, particularly computers.

Industries for the Blind is a program operated in conjunction with the Multnomah County Mental Health Department. The program includes a work activity center and a vocational program specializing in serving clients who are developmentally disabled. Many of the clients are also blind. Most of the participants work in sheltered employment. A few work in the agency's community-based supported employment program.

Administrative Services includes the Administrator's staff, as well as accounting, budgeting, and human resources.

Revenue Sources and Relationships

Federal Funds comprise approximately 70% of the agency's total revenue. The predominate source of these funds is 1973 Rehabilitation Act (as amended) Section 110 funding which accounts for better than 90% of the federal resources used by the Commission. The agency shares the state's federal allotment of Section 110 funds with the Vocational Rehabilitation Programs within the Department of Human Services (DHS). DHS manages a rehabilitation program that is similar to the Commission's, but geared toward persons with disabilities other than visual impairment. Section 110 funds have a generous match rate of approximately $3.70 Federal Funds for every $1 of state or local-matching funds.

The Governor's recommended budget includes Other Funds revenue of $2.6 million. Much of that revenue is payments from Multnomah County to the Industries for the Blind workshop for services to developmentally disabled persons. Cooperative agreements with school districts and non-profit rehabilitation providers, as well as an interagency transfer from the Department of Education, provide additional funds. Finally, the agency receives funds from assessments of business enterprise vendors.

The agency also receives revenue from a Bequest and Donation Fund. Prior to the 1999-01 biennium, Bequest and Donation Fund balances and income were not included in legislatively adopted budgets. The Commission distributed these funds for costs related to the agency's mission without legislative oversight. The 1999 Legislative Assembly, however, included $71,274 of donation fund income (and expenditure limitation) within the agency's Other Funds budget. Half of the funds were to be used to support the Older Blind program and the other half to match any additional Federal Funds that might become available during the course of the 1999-01 biennium.

Budget Environment

When a state rehabilitation agency such as the Commission cannot respond promptly, or has insufficient funds to serve all those seeking assistance, the federal Rehabilitation Act requires the agency to serve the most severely disabled persons first. This federal mandate to effectively triage clients is called an "order of selection." In June 2000, the Commission voted to operate under this mandate. This reflects, in part, the growing number of persons with disabilities in Oregon's general population as well as limited resources.

The agency continues to address technology issues on behalf of its clients. Because the market is relatively small and the technology is specialized, the cost of computer equipment for blind and visually impaired persons is high. Moreover, knowledgeable technicians are required to make sure the equipment works effectively for clients and that it allows the client to perform vocational tasks over the long run, even when the client's sight changes or the employer upgrades technology for all employees. The increased use of computers in the job market, as well as significant advances in technology designed to help a visually impaired person, continues to increase the demand for service from the Commission's Technology Center.

Oregon continues to witness growth of the elderly population and the aging of baby boomers. Both these factors increase demand for agency services to persons who develop blindness or greater visual impairment later in life. As resources decrease and the demand for services increase, waiting lists are growing, often as long as six months. The lack of resources has also resulted in the absence of services in some geographical areas of the state.

The Commission's 2001-03 budget was reduced by $98,467 General Fund based on special session actions during the interim. The agency received an additional $30,530 General Fund for partial funding of employee salary and benefit increases, $10,618 less than needed to fully fund those increases. To manage the reductions, the agency used Other Funds to replace General Fund, left vacant positions unfilled, and reduced services and supplies.

Governor's Budget

The Governor's recommended total funds budget of $11.9 million is 7.3% lower than the $12.9 million legislatively approved budget for 2001-03. The decrease reflects a General Fund reduction of 3.5% to help balance the statewide budget. The loss of General Fund will impact the Federal Funds resources due to a high match rate; however, the Commission will explore the use of Other Funds for the federal match requirements.

The budget includes $121,176, of which $25,810 is General Fund and $95,366 is Federal Funds, for increased rent costs due to the building occupied by the Commission being scheduled as a self-supporting rent building. The agency has received a rent subsidy in the past that is no longer available. The current facility is a specialized building that has been tailored to the needs of the agency's blind customers.

State Commission on Children and Families (SCCF) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	51,615,786	61,398,701	54,473,649	55,586,542
Other Funds	17,547,550	21,667,206	23,826,948	24,556,622
Federal Funds	2,066,309	275,501	321,452	178,809
Total	**71,229,645**	**83,341,408**	**78,622,049**	**80,321,973**
Positions (FTE)	30.67	34.50	33.50	34.50

The State Commission on Children and Families is responsible for leading statewide planning for a system of services for children and families. The system is to be preventive, accessible, community-based, focused on promoting children's wellness, and based on measurable outcomes and best practices. The State Commission supports 36 local county commissions on children and families by providing policy direction, program information, training and technical assistance in planning and program evaluation. It also distributes state and federal funds to counties, for designated programs and flexible county grants for services to children and families.

The State Commission has 16 members: 12 appointed by the Governor, the Director of the Department of Human Services, the Superintendent of Public Instruction, and nonvoting, advisory members from the Senate and the House of Representatives.

Revenue Sources and Relationships

General Fund supports almost 70% of the Commission's budget. A total of $8.3 million General Fund in the Commission's budget is used towards the state's Maintenance of Effort requirement for the Temporary Assistance to Needy Family block grant. Other General Fund expenditures are used as state match for federal Child Care and Development Funds and Safe and Stable Families (Family Preservation and Support) funding. .

Most of the Other Funds revenue is federal money that comes to the Commission from other state agencies. This makes up about 18% of the Commission's budget. The Department of Human Services will transfer $8.0 million in Title XX Social Services Block Grant and $2.5 million in Title IV-B (2) Safe and Stable Families (Family Preservation and Support) revenue to the Commission. Title XX supports programs for non-delinquent, at-risk youths aged 11-18 (formerly called Level 7 youth) and crisis/relief nurseries. Title IV-B (2) funds are used for grants to counties and for Healthy Start program support.

The Employment Department is expected to transfer $3.7 million in Child Care and Development Fund (CCDF) revenue that is used by local commissions to expand access to quality child care. In the 2001-03 biennium, an additional one-time, $2 million transfer was made for grants to increase availability and improve quality of child care. About one-third of that $2 million will be spent in the 2001-03 biennium; the balance will carry forward to 2003-05.

The Commission also uses General Fund to match federal Title XIX Medicaid funds from the Department of Human Services, for qualified services in local Healthy Start programs. Over $3 million in matching funds is expected for 2003-05, creating a total of $6.4 million Other Funds expenditures in the program.

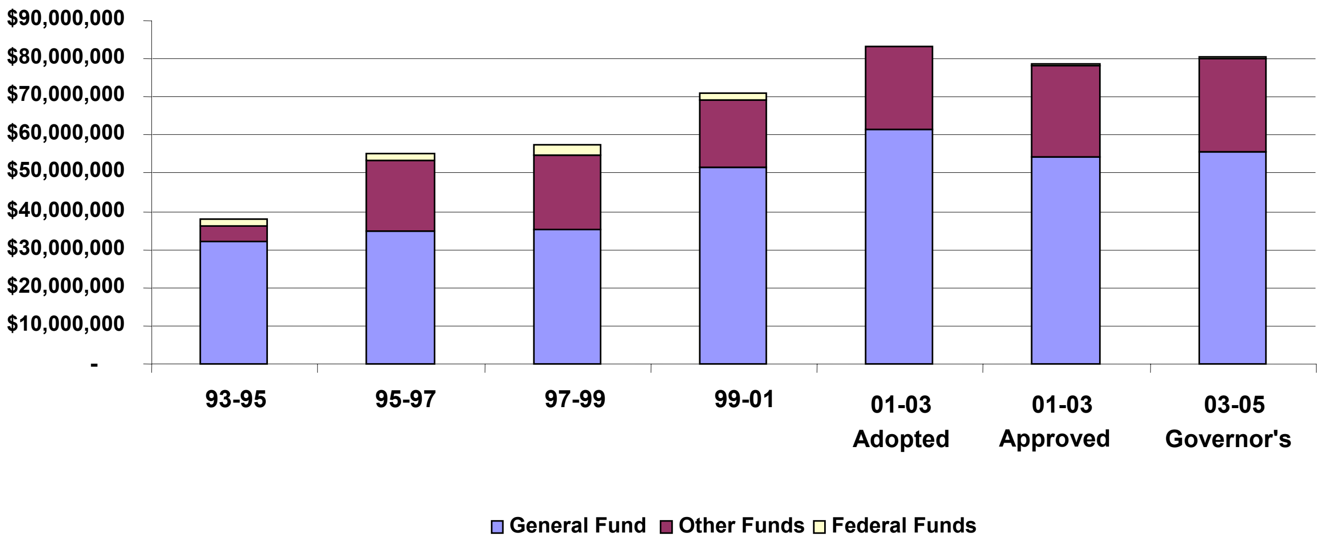
The Commission also gets some Other and Federal Funds from specific program grants. For 2003-05, these include grants for the Court Appointed Special Advocate program and Positive Youth Development activities.

Budget Environment

The Commission system began operations in 1994 to carry out legislative policy to develop and implement a statewide system of services for children and families. Local commissions on children and families were created as the basis for both planning and investments of community supports and services. In 1999, the Legislature significantly expanded the scope of this effort with SB 555, to require a coordinated, comprehensive planning process for all early childhood, alcohol and drug, and juvenile services. It charged the Commission with a lead role in this process. At this time, each county has "mapped" local needs, barriers, strengths and services for children and families and identified local priorities with broad community involvement. Each county is working to develop the evaluation and outcome reporting required by the legislation, to put in place measurable strategies and targets. The approved plans, which will take effect July 2003, will be a tool to help identify resource needs and program results statewide as well as at the local level.

The 2001 Legislature passed HB 3659, a policy framework for the Oregon Children's Plan, which defines a statewide system of voluntary screening, referral, and supports for children ages 0 to 8 and their families. The Children's Plan anticipated funding from the State Commission on Children and Families to support home visitation programs and community-based services. Other state partners -- primarily the Department of Education and the Department of Human Services -- were to provide health, mental health and developmental disability services; preschool and special education services; alcohol and other drug treatment services; and child care supports. However, the planned expansion of Healthy Start home visitation services and other Children's Plan resources was significantly scaled back during the interim as part of budget reductions in the Commission, the Department of Education and the Department of Human Services.

As shown in the chart below, the state has invested significant resources in the Commission over time. The total funds budget has more than doubled over ten years, even with the reductions made in the 2001-03 budget period. This reflects strong legislative support for community-based services for children and families, particularly the Healthy Start home visitation program.



The Commission's 2001-03 legislatively adopted budget was reduced by $7 million General Fund in special session actions during the interim. An additional $123,427 General Fund was allocated for partial funding of employee salary and benefit increases, $42,928 less than needed to fully fund those increases. Reductions have been implemented for one-time delays in the Healthy Start home visitation program expansion; eliminating funding for one-call centers and community referral lines, and reducing physician training for the Oregon Children's Plan; eliminating funding for the First Steps violence prevention program; and administrative reductions. To achieve the $2 million General Fund unspecified reductions in HB 5100, the Commission will capture some one-time savings from county unobligated funds, eliminate funding for family resource centers and Together for Children programs; eliminate some contracted program evaluations; reduce county flexible program funds and local staffing grants; and reduce funding for crisis/relief nurseries and Court Appointed Special Advocate (CASA) services.

Governor's Budget

The Governor's budget for the Commission is 9.5% General Fund and 3.6% total funds below the 2001-03 legislatively adopted budget. This reflects a slowed expansion of the Healthy Start home visitation program and other funding reductions. The Healthy Start program is funded statewide to serve 65% of first-birth families; $5.3 million General Fund of the Healthy Start funding is redirected from county grants.

The budget carries forward many of the 2001-03 budget reductions into the 2003-05 biennium, for a total $4.2 million General Fund reduction. This eliminates funding for family resource centers and Together for Children programs, and reduces funding for county grants, crisis/relief nurseries, CASA services and evaluation of the Oregon Children's Plan. Funding for physician training is eliminated.

SCCF – Community Development and Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	49,332,750	58,472,662	51,629,745	52,355,187
Other Funds	17,544,906	21,654,242	23,813,984	24,474,976
Federal Funds	2,066,309	273,552	319,503	176,854
Total	**68,943,965**	**80,400,456**	**75,763,232**	**77,007,017**
Positions (FTE)	16.17	19.12	19.12	19.50

Program Description

This program includes funding that goes to the 36 local commissions on children and families, and the State Commission staff that provide technical assistance for local program efforts. The local commissions help develop and implement local comprehensive plans for children and families. They coordinate efforts among agencies to improve service delivery systems and monitor work performed by the service providers. The local commissions' plans and work are subject to review and agreement by the local boards of county commissioners. Neither the state nor the local commissions provide direct services. Local commissions distribute the state funding to local service providers. The providers work on contract for the local commission.

Budget Environment

The 2001-03 legislatively adopted budget expanded funding for Healthy Start home visitation programs to all counties. It also anticipated increased funding in February 2002 to serve an estimated 70% of first-birth families, and increased funding in January 2003 based on 80% of first births. Budget reductions have delayed the Healthy Start home visitation program statewide roll-out, although all counties should have programs in place by the end of the 2001-03 biennium. The reductions also limited funding to all counties at only an estimated 65% of first-birth families. The 24-month cost for all counties at 80% of first births would require an additional $11.4 million General Fund and $4.4 million Other Funds in the 2003-05 biennium.

The 2001-03 budget also added $2.2 million General Fund for increased early childhood program evaluations and local early identification efforts related to the Oregon Children's Plan. About 60% of this funding was eliminated as part of the budget reductions during the 2001-03 interim. The Commission has identified a need for technical assistance, training, community resources, and evaluation to support communities in carrying out the Children's Plan legislation.

The Commission allocates funding for three programs identified by legislative policy: family resource centers operative at eight sites; three parents-as-teachers (Together for Children) program sites; and seven crisis/relief nurseries. As part of the unspecified reductions from HB 5100, funding for the family resource centers and Together for Children program is eliminated, and crisis/relief nursery funding reduced by about half for the last 5 months of the 2001-03 biennium. Funding for the First Steps violence prevention training program was eliminated as part of earlier special session budget reductions.

Three General Fund grant streams provide flexible program funds and operating resources for local commissions on children and families. The Great Start grant and the Children, Youth and Families grant are used by communities to address early childhood and child and family priorities in the local coordinated comprehensive plans. Historically, these grants have not been defined by or tied to caseload growth, population growth or cost inflation. The local staffing grant funds local commission staff and overhead, and the development of the local coordinated comprehensive plan. The 2001 Legislature asked the Commission to work with local commissions to determine the minimum staffing levels needed to carry out local responsibilities and discontinue percentage allocations from program grants for that purpose. The Commission has proposed a single grant stream from current resources to fund 2.0 FTE local staff, overhead and planning costs. The Commission has identified a 3% reduction in each of these three grant streams as part of its HB 5100 reductions.

In the 1999-2001 interim, the Court Appointed Special Advocate (CASA) program Planning and Advisory Committee recommended a three-biennia expansion of the program, to meet statutory requirements for an advocate for every juvenile court proceeding involving an abused or neglected child. The 2001-03 budget increased CASA program funding by inflation only, providing a total of $1.5 million General Fund for distribution to counties. An additional $4.0 million General Fund would be needed to bring CASA funding to the taskforce's recommended level in the 2003-05 biennium.

Governor's Budget

The Governor's budget carries forward 2001-03 budget actions for HB 5100, with a partial funding restoration for crisis/relief nurseries. The 2003-05 General Fund reductions in the Governor's budget are as follows:

- Reduce funding for county grants ($1,303,999)
- Reduce funding for crisis/relief nurseries ($912,847)
- Eliminate funding for family resource centers and related program evaluation ($900,727)
- Eliminate funding for Together for Children programs ($621,000)
- Reduce funding for CASA ($145,966)
- Eliminate funding for physician training under the Oregon Children's Plan ($207,800)
- Reduce program-related Services and Supplies expenditures ($93,150)

The budget also eliminates $259,750 General Fund for a system evaluation of the Oregon Children's Plan.

The Governor's budget maintains funding for the statewide Healthy Start program to serve 65% of first-birth families. This is achieved by redirecting $5.3 million General Fund from the county grants. Funding dedicated to the Healthy Start program includes $30.6 million General Fund, with $6.4 million Other Funds related to Medicaid match through the Department of Human Services.

Funding for local commissions' staffing and planning work is consolidated into one $12 million total funds Local Basic Capacity grant. This includes $11.2 million General Fund, and $842,767 Other Funds. This action redirects existing budget resources to simplify and better identify funding used for local commission support.

The budget also eliminates $378,118 in Other Funds payment to the Department of Human Services (DHS) for the Children's Ombudsman. This reflects is based on proposed legislation to transfer the statutory responsibility for the Ombudsman from the Commission to DHS, which is currently performing the function through interagency agreement.

SCCF – Policy and Support Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,283,036	2,926,039	2,843,904	3,231,355
Other Funds	2,644	12,964	12,964	81,646
Federal Funds	0	1,949	1,949	1,955
Total	**2,285,680**	**2,940,952**	**2,858,817**	**3,314,956**
Positions (FTE)	14.50	15.38	14.38	15.00

Program Description

The Policy and Support Services program supports the 16-member State Commission, and gives policy direction and oversight of local programs for the 36 local commissions. This section handles agency administrative functions and support services, which includes communication, planning and policy management, program monitoring, fiscal control and information systems management. It helps counties with the statewide Fiscal, Monitoring and Outcomes Reporting System.

Budget Environment

SB 555's coordinated comprehensive planning process and HB 3659's Oregon Children's Plan have increased workload and costs in this area. The 2001 Legislature approved an auditor position and funding to do county and program site reviews and improve system accountability. However, budget reductions in the 2001-03 interim reduced the Commission's resources for travel, training, Commission meetings and program evaluation.

Governor's Budget

The budget eliminates one vacant position ($68,522 General Fund, 1.00 FTE); funding for the position was cut in the 2002 third special session. A half-time (0.50 FTE) limited duration position is added to write grants. The position is expected to generate enough revenue to cover its $66,870 Other Funds cost and provide added program resources.

Oregon Disabilities Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	288,121	288,741	285,337	298,929
Other Funds	559,031	545,689	565,902	733,109
Federal Funds	887,395	814,437	817,297	243,782
Total	**1,734,547**	**1,648,867**	**1,668,536**	**1,275,820**
FTE	8.00	5.20	5.20	5.50

Program Description

ORS 185.120, one of the Commission's enabling statutes, sets forth two primary functions of the agency. First, the Commission is "to act as a link among and between" the numerous public and private agencies and organizations serving individuals with disabilities in Oregon. Second, the Commission is "to work for the implementation and establishment of economic, social, legal and political equity of individuals with disabilities." The Commission, as mandated by statute, is also to advise the Department of Human Services, the Governor, and the Legislative Assembly on matters related to the equity of persons with disabilities as well as the services and resources needed to serve them.

To fulfill its mission, the Commission provides advocacy activities on behalf of, and referral services to, persons with disabilities and administers three main programs: the Client Assistance Program (CAP), the Technology Access for Life Needs (TALN) program, and the Deaf and Hard of Hearing Access Program (DHHAP). The Commission also acts as the state's coordinating agency for compliance with the federal Americans with Disabilities Act (ADA). The Commission comprises 15 members appointed by the Governor and confirmed by the Senate.

The CAP is a federal program that provides advocacy for clients of the Vocational Rehabilitation Division of the Department of Human Services, the Commission for the Blind, and Independent Living Centers who are not satisfied with their services. CAP representatives attempt to mediate and resolve disputes between clients and the rehabilitation agencies mentioned above. In Oregon, the Disabilities Commission contracts for these services with private non-profit agencies. Without an independent Client Assistance Program, no federal Rehabilitation Act funds would be awarded in the state.

The TALN program offers information and demonstrations on assistive technology to persons with disabilities, their employers, and representatives of agencies and programs that serve them. The program provides outreach through community colleges around the state. The federal TALN funding is scheduled to sunset on March 31, 2003. Although an extension is hoped for, it has not yet occurred.

The DHHAP attempts to resolve communication barriers for state agency clients, employees, and other constituents who are deaf, hard of hearing, and/or late deafened. The program provides four basic services: training and educational services, technical assistance, information and referral services, and coordination of sign language interpreter services for state agencies.

Revenue Sources and Relationships

The CAP is federally funded through the U.S. Department of Education's Rehabilitation Services Administration. Oregon has been designated as a "minimum allotment state" based on its population. The Commission expects to receive $238,524 to support the CAP during the 2003-05 biennium.

The TALN program is federally funded from the National Institute on Disability and Rehabilitation Research of the U. S. Department of Education. The Commission was granted funds of $2,847,500 for a five-year period (1995-2000) and the grant was extended for an additional three years ending on March 31, 2003. The agency estimates it will receive $570,397 for TALN activities during the 2001-03 biennium. Federal funding for TALN is expected to end on March 31, 2003; therefore, no funding is included in the budget for the 2003-05 biennium.

Both the CAP and TALN funding are free from any state matching requirements.

The DHHAP is funded by Other Funds from interagency agreements to provide hearing impaired translator services, sign language interpreter coordination, dispatching, training, and technical assistance. Contract agencies (and the projected contract amounts during 2003-05) include the Department of Human Services ($454,622), the Employment Department ($44,505), and the Oregon Youth Authority ($31,050). Seven other state agencies are expected to provide another $37,861 in contract funds.

General Fund support is provided for administration and Commission expenses, general advocacy activities, and coordination of ADA implementation.

Budget Environment

The biggest challenge facing the Disabilities Commission during the 2003-05 biennium is the declining resources available to perform their statutory responsibilities, particularly as the disabled population in Oregon continues to increase causing the demand for services and access to state programs to increase as well. Because of limited resources, the Commission is not proposing any new initiatives for the 2003-05 biennium. Instead, the agency will concentrate on developing effective partnerships and strategies to carry out their mission and institute more effective database collection and management procedures.

The Commission will be adversely impacted by the loss of federal funds as the grant received through the U.S. Department of Education (TALN) is due to sunset with no authorized extension as of yet. While most of these federal funds are passed through to a private, non-profit organization, the Commission will lose approximately 10% of its administrative funds, or $58,843. The agency continues to work with the contractor to determine how assistive technology will be furthered in Oregon without the availability of these funds.

Governor's Budget

The Governor's recommended budget of $1,275,820 total funds represents a 23.5% decrease from the 2001-03 legislatively approved budget. The loss of federal funds for the TALN grant represents the biggest portion of this reduction although it is partially offset by a 29.5% increase in Other Funds for the interagency agreements to provide services for the Deaf and Hearing Impaired Access Program. The Governor's budget provides for a $167,688 Other Funds carry-over and an ending balance of $143,287 Other Funds.

The recommended budget includes $298,929 General Fund, a 4.8% increase over the 2001-03 legislatively approved General Fund appropriation. The General Fund supports 23.4% of the agency's budget.

Department of Human Services (DHS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,227,489,426	2,569,252,411	2,344,816,696	2,213,079,964
Lottery Funds	5,045,990	7,145,478	6,436,025	6,878,546
Other Funds	792,308,247	987,526,286	1,332,417,034	1,162,649,385
Federal Funds	3,939,792,691	4,355,379,645	4,839,730,841	4,366,629,684
Nonlimited	480,660,754	641,994,138	767,823,072	831,901,901
Total	**7,445,297,108**	**8,561,297,958**	**9,291,223,668**	**8,581,139,480**
FTE	8,686.84	8,870.48	8,813.21	9,337.79

The Department of Human Services (DHS) is the largest agency within the Human Services program area, making up 98% of program area expenditures. Overall, DHS comprises about 19% of the state's combined General Fund and Lottery Funds budget, but 24% of the state's total funds budget.

The 2001 Legislative Assembly passed HB 2294, which eliminated separate divisions and program offices and realigned program responsibilities within the Department. The goal was to improve services for clients, families and communities by reducing fragmentation, improving accountability, increasing efficiency, strengthening local partnerships, and better focusing on measurable outcomes.

For the 2003-05 biennium, the Department's budget is organized by five program areas, or "clusters":

- ***Children, Adults and Families*** includes self-sufficiency and family safety services, child protection, child welfare and adoption services.
- ***Health Services*** is made up of public health programs; mental health and addiction services; and medical assistance programs, which include the Oregon Health Plan.
- ***Seniors and People with Disabilities*** includes long-term care and direct financial support for seniors and persons with disabilities, including developmental disability services.
- ***Community Human Services*** includes field staffing for the range of DHS services, organized into 16 Service Delivery Areas throughout the state.
- ***Department-wide Support Services*** includes the centralized administrative and support functions of the DHS Director's Office.

Revenue Sources and Relationships

In the 2001-03 legislatively adopted budget, the General Fund supported 30% of DHS expenditures. This is down to 26% in the Governor's budget for 2003-05. Over 85% of the General Fund is used to match or meet maintenance-of-effort requirements for receipt of Federal Funds.

DHS receives statutorily-dedicated Lottery Funds for gambling addiction prevention and treatment services. Other Funds revenues, which support about 13% of DHS expenditures, come from a wide variety of sources including tobacco taxes, grants, the unitary tax assessment, beer and wine taxes, fees, estate collections, child support collections, health care premiums, third party recoveries, pharmaceutical rebates, and charges for services. Nonlimited Other Funds come from infant formula rebates.

Overall, Federal Funds support about 60% of DHS expenditures. Federal Funds subject to expenditure limitation are about half of the DHS budget. Almost two-thirds of this federal revenue comes from the Title XIX Medicaid program. Other major Federal Funds revenues include Temporary Assistance to Needy Families (TANF), Foster Care and Adoption Assistance, Child Welfare Services, Social Services Block Grant, Child Health Insurance Protective Services (CHIPS), and Basic 110 Rehabilitation funds. Nonlimited Federal Funds are for the Food Stamp and Women, Infants and Children (WIC) nutrition programs.

Budget Environment

Factors that affect the DHS budget include population changes, especially the number of people who are elderly, disabled, or living in poverty. The health of the economy also has a significant impact on this budget. Typically, when the economy is poor, there is increased demand for DHS services. During the 2001-03 biennium, for example, growth in Temporary Assistance to Needy Families (TANF) caseloads, Food Stamp caseloads, Oregon Health Plan caseloads, and long-term care for elderly Oregonians put significant pressure on the DHS budget. Since a large part of the budget is devoted to health services, the high rate of inflation and utilization trend costs for medical care also drive DHS costs. Additionally, federal budget and program changes can have significant impact on the DHS budget. For example, the TANF program is facing federal reauthorization, with potential for significant cost increases depending on final program requirements. Changes in federal matching funds or maintenance-of-effort levels can increase the state's costs or save General Fund within the same level of program services. In a number of program areas, litigation by clients and advocate groups has resulted in program cost increases; examples include child welfare services and services for developmentally disabled persons. These and other environmental factors are discussed in greater detail in each DHS program area budget analysis.

The 2001 Legislature reduced DHS's 2001-03 budget by $4 million General Fund for expected savings from the agency reorganization. The budget also anticipated $6 million in General Fund savings which the agency was directed to reinvest in expenditures to support the reorganization, such as information systems improvements, financial systems restructuring, and staff training. Due to other budget reductions during the interim, DHS identified only $4.1 million available for reinvestment, and actually spent even less.

The agency's 2001-03 legislatively adopted budget has been reduced by a net $224 million General Fund in special session actions during the interim, after distribution of partial funding of 2001-03 employee salary and benefit increases. Other management actions were taken as part of budget rebalances to offset increased costs in other programs, or to meet across-the-board budget savings directed to address the December 2002 forecast revenue shortfall. Significant funding or program changes for the 2001-03 biennium, including reductions planned to address the $88 million General Fund reduction for HB 5100's across-the-board reductions, include:

- Use of $85 million in Master Tobacco Settlement Funds as a one-time offset to General Fund
- Use of $68 million in increased tobacco tax revenues dedicated to the Oregon Health Plan
- Reduce JOBS employment services, Emergency Assistance, Employment Related Day Care, Temporary Assistance to Needy Families cash grants, field staffing
- Reduce child welfare services and treatment resources, including System of Care individualized services, and payments to foster care and adoptive parents
- Eliminate General Fund support for school-based health clinics, reduce contracted perinatal and prenatal programs, and communicable disease control funding
- Eliminate General Assistance and Medically Needy program funding, and eligibility for long-term care services for clients in priority levels 10-17
- Eliminate Oregon Project Independence services
- Reduce nursing facility, assisted living facility, residential care facility, and adult foster home rates
- Eliminate service enhancements committed to as part of the Staley Settlement Agreement for children and adults with developmental disabilities
- Reduce psychiatric day treatment capacity for children and adolescents
- Eliminate adult mental health residential treatment beds, and funding for hospital psychiatric unit stays
- Eliminate community mental health services for adult and children not eligible for Medicaid, and eliminate state funding for county mental health crisis response services
- Eliminate $6.5 million General Fund earmarked for local mental health services under HB 3024 (2001)
- Reduce adult residential alcohol and drug treatment capacity, and outpatient treatment funding
- Eliminate funding for mental health, alcohol, and drug treatment for Oregon Children's Plan families
- Delay Oregon Health Plan eligibility effective date to first of the month following eligibility approval
- Eliminate coverage for dental and chemical dependency services, prescription drugs, and durable medical equipment and supplies, for the Oregon Health Plan Standard population
- Reduce central administrative services staff and expenditures, including significant reductions in information systems contracts and purchases.

Governor's Budget

General Fund in the Governor's budget for DHS is 13.9% lower than the 2001-03 legislatively approved budget, even before reductions for the proposed salary and merit freeze are applied. It carries forward the budget reductions made during the 2001-03 biennium with a few exceptions: field staff is added for caseload growth in Food Stamps, child welfare, seniors' programs, and the Oregon Health Plan; and funding for child welfare System of Care services is partially restored. The budget also eliminates funding for cost increases across DHS programs, including those for provider reimbursements. More detailed information on the Governor's budget will be presented in each program area analysis.

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

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	207,508,915	236,447,476	178,209,797	211,824,743
Other Funds	85,507,650	141,028,142	143,649,361	120,953,609
Federal Funds	609,121,440	533,513,604	536,806,599	475,855,366
Nonlimited	388,854,951	537,444,138	656,944,072	723,692,651
Total	**1,290,992,956**	**1,448,433,360**	**1,515,609,829**	**1,532,326,369**
FTE	425.83	404.80	264.90	214.50

Summary Description

Children, Adults and Families (CAF) provides policy and program support for self-sufficiency and child welfare services. It administers programs that promote independence for families and adults, and safe and permanent families for Oregon's abused, neglected and dependent children. It carries this out through coordination and collaboration with community partners and policy and technical support to field staff across the state. The field employees who deliver self-sufficiency and child welfare program services are included in the Community Human Services program area.

Self-sufficiency programs include Temporary Assistance for Needy Families (TANF), Job Opportunity and Basic Skills (JOBS), Employment Related Day Care, Food Stamps, Emergency Assistance, Refugee Assistance, Prevention Services and the Child Support program. The programs are directed at meeting immediate critical needs for low-income families while helping them become independent of public assistance.

Child welfare programs include child protective services, substitute care and adoptions. Child protection and treatment programs serve children across the state who have been abused, neglected, or whose families are unable to provide for their basic care. The primary goal is to enable families to provide a safe home for their children with in-home supports, education and treatment where needed. When this is not possible, the secondary goal is to secure permanent alternative families for children through adoption or other efforts.

Revenue Sources and Relationships

General Fund supports only 13.8% of CAF's budget. Other Funds make up 7.9% of the budget. These include child support recoveries and client trust account funds from client resources, such as federal Supplemental Security Income disability payments, which are used to offset state assistance and maintenance costs for children in care. CAF receives $90 million in federal Child Care and Development Block Grant funds from the Employment Department to help pay for child care costs. Domestic Violence Services are funded by a combination of Criminal Fines and Assessment Account revenues, a surcharge on marriage licenses, and federal funds. The Sexual Assault Victims Fund is also funded by Criminal Fines and Assessment account revenues. User fees are collected to cover the costs of the Adoption Assisted Search Program and Independent Adoption Home Studies. Law Enforcement Medical Liability Account revenues come from local bails and court fines.

Federal Funds make up 78.3% of the budget. Non-limited Food Stamps benefits, which are 100% federally funded, make up almost half of the budget. Other federal revenues come from block grants, payments for partial reimbursement for eligible State costs, and miscellaneous grants for specific amounts and purposes. The federal Temporary Assistance to Needy Families (TANF) block grant is expected to provide $231 million for CAF programs in the 2003-05 biennium, although federal reauthorization of the block grant is still pending. TANF funds pay for cash assistance, JOBS services, child care, and other self-sufficiency programs. The Title XX Social Services Block Grant is estimated at $31 million for the biennium. In addition to using Title XX funds in the CAF budget, $8.0 million in Title XX funds is transferred to the State Commission on Children and Families to support local programs for non-delinquent, at-risk youths aged 11-18 (formerly called Level 7 youth) and crisis/relief nurseries. Another federal source is the Title IV-B Safe and Stable Families (Family Preservation and Support) grant. CAF uses these funds in its own budget to pay for time-limited family reunification work and post-adoption services. It will also transfer $2.5 million in Title IV-B (2) funds to the Commission for grants to counties and for Healthy Start program support. Federal Refugee Resettlement funds pay for refugee program and administrative expenditures.

The federal government partially reimburses eligible state costs through the Title IV-E Foster Care and Adoption Assistance program and Title XIX Medicaid program. Title IV-E funding is used for child welfare services, adoption assistance, and related administrative costs. Medicaid funding is spent for case management services, special rates for certain children in foster care and related administrative services. The level of reimbursement in these programs varies with federal match rate changes, the number of children served, and eligibility of the services provided. Federal match rates for the 2003-05 biennium are expected to be higher than those in effect for the 2001-03 biennium, so less General Fund is needed to maintain the same program levels. The Governor's budget anticipates $91 million in federal Title IV-E funds and $67 million in federal Title XIX (Medicaid) funds for 2003-05.

Budget Environment

Self Sufficiency Programs

Federal welfare reform was initiated with the passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). This act repealed the Aid to Families with Dependent Children (AFDC) program and combined its funding stream with several childcare and training programs into the Temporary Assistance for Needy Families (TANF) block grant program. More importantly, PRWORA refocused public assistance efforts on employment and self-sufficiency and required client participation as a condition for receiving benefits.

Oregon's welfare reform actually began earlier than federal reform, but was similar in its emphasis on self-sufficiency and independence. As a result, Oregon moved from simply determining eligibility and distributing cash benefits to working intensively with clients to help them find and maintain employment and work toward self-sufficiency. On July 1, l996, Oregon implemented the state's version of welfare reform. Under the Oregon Option, there is more emphasis on participation in employment and training activities and greater penalties for non-cooperation. The state has received a federal waiver to continue operating under the Oregon Option until 2003.

States must adhere to "maintenance of effort" (MOE) requirements to receive federal TANF funds. In Oregon, non-federal support must be maintained at 75% of the state contribution in the base year (1994-95). This means state support from the General Fund or other state resources must equal at least $183.6 million per biennium. This state support has come from several agencies, including the Department of Human Services, the Employment Department, the Department of Education and the State Commission on Children and Families. Budget decisions on General Fund appropriations in these agencies will affect the state's ability to meet TANF MOE requirements.

Because AFDC caseloads were significantly higher in 1994 than they are today, the state has been able to redirect TANF funds from cash assistance payments to employment and training and child care enhancements, and to substantially offset General Fund expenditures in self sufficiency and child welfare programs. Unlike many states who accumulated large amounts of unobligated federal TANF funds through the 1990's, Oregon has chosen to fully use available TANF funding and not "bank" any caseload savings as a hedge against future caseload growth.

PRWORA sunset on September 30, 2002, but Congress has not completed reauthorization of the legislation and determined future TANF funding levels. It does not appear likely that Oregon will be able to continue operating its TANF program under its Oregon Option waiver provisions. At this time, it appears that program reauthorization will require significantly higher work participation levels, with potentially higher costs to Oregon to meet those requirements.

The Department of Human Services (DHS) is the designated state agency to administer the Child Support Enforcement Program under Title IV-D of the Social Security Act. The Department of Justice Division of Child Support and county District Attorneys have provided child support services under contract with DHS, with DHS maintaining administrative responsibility for the program. A budget note from the 2001-03 budget report directed the Department of Administrative Services to analyze the potential of changing how the program is administered. Legislation has been pre-session filed to move the responsibility of program administration for DHS to the Department of Justice. DHS would continue to receive child support payments collected for public assistance recipients to help offset state costs.

Child Welfare Services

For the year 2001, CAF reports a decrease in the number of child abuse and neglect victims and slower growth in foster care. Younger children continue to be at greater risk of abuse and neglect. The largest single age group of victims of abuse or neglect is under one year old, with almost half the victims younger than age 6. Families of abused and neglected children are often facing multiple stressors such as alcohol and drug abuse, law enforcement involvement, unemployment, and domestic violence. CAF has increased its efforts to provide services to keep children safely in their own homes, but the large number of young victims, combined with the intensity of family problems, result in more complex cases that take longer and are more costly to resolve.

The agency continues to implement the System of Care, a "strengths/needs-based" approach adopted as part of a 1995 legal settlement agreement with the Juvenile Rights Project and the National Center for Youth Law. Similar litigation had successfully challenged child welfare systems in at least 35 jurisdictions nationwide. System of Care focuses on the unique needs of the child and family. Caseworkers tailor services to meet those needs, using flexible funding to provide individualized services not otherwise available. The legal settlement agreement requires the System of Care approach be in place statewide by June 2003.

The 1997 federal Adoption and Safe Families Act (PL 105-89) mandated strict new timelines for achieving permanent placement for children in out-of-home care. The 1999 Legislature adopted SB 408 to match Oregon law with federal ASFA requirements. As a result, CAF intensified casework efforts for children and families, revised data collection and reporting procedures, and added staff to complete adoptions more quickly. The increased number of adopted children has increased Adoption Assistance costs that help remove financial barriers to adoptions for special needs children. During the 2001-03 biennium, the number of children receiving Adoption Assistance surpassed the number of children in foster care for the first time.

During the 2001-03 biennium, Oregon's child welfare system underwent federal review. A program improvement plan was negotiated to meet federal Department of Health and Human Services requirements. The plan added resources to address staff training, case planning, federal reporting, and services for older youth.

The 2001-03 legislatively adopted budget for self-sufficiency and child welfare services has been modified by a combination of management actions taken as part of Department of Human Services budget rebalances approved by the Emergency Board, and by budget reductions made in special legislative sessions. Overall funding has increased due to growth in federal food stamp benefits. However, General Fund has been reduced by a net $58.2 million. Major program changes:

- Transfer of central administrative staff positions to the Department-Wide Support Services budget
- Reduce the TANF cash grant an average of $5 monthly
- Eliminate the JOBS Plus wage-subsidized employment program
- Reduce JOBS program contract and support services
- Reduce Emergency Assistance for non-domestic violence cases
- Reduce income eligibility for Employment Related Day Care from 185% to 150% of federal poverty guidelines, and increase client co-payments for those who are eligible
- Eliminate day care assistance for post-secondary students
- Reduce food stamp outreach efforts
- Reduce teen pregnancy prevention programs
- Reduce child foster care, special rates, and Adoption Assistance payments by 7.5% to 10%
- Reduce Supportive-Remedial Day care, child welfare contracted family treatment and support, statewide residential treatment, and special contracts for abused and neglected children
- Eliminate System of Care flexible funding
- Eliminate General Fund for the Klamath Adolescent Program, Father Taffee Foundation and Outdoor School licensing program

Governor's Budget

The Governor's budget represents a 10.4% General Fund reduction and a 5.8% total funds increase from the 2001-03 legislatively adopted budget. It carries forward the program reductions made during the 2001-03 interim, with a partial restoration of System of Care flexible funding. Expected caseload growth in food stamps benefits, child foster care, Supportive Remedial Day Care, and Adoption Assistance is funded. The budget does not fund General Fund inflation increases for program expenditures or cost-of-living increases for program providers. Funding for the Child Support program is transferred to Department of Justice as part of HB 2340; this reduces the CAF budget by $8.1 million General Fund, $91.0 million total funds.

CAF – Self-Sufficiency

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	86,476,897	67,790,933	n/a	63,366,184
Other Funds	47,435,170	115,792,363	n/a	95,418,960
Federal Funds	401,909,080	309,041,182	n/a	240,836,997
Nonlimited	388,854,951	537,444,138	n/a	723,692,651
Total	**924,676,098**	**1,030,068,616**	**n/a**	**1,123,314,792**
FTE	3.00	3.00	n/a	0.00

NOTE: 2001-03 legislatively approved budget information is not available at the program level at this time.

Program Description

The Self Sufficiency programs provide assistance for low-income families to help them become self-supporting. The major programs are described below. Many of those who receive services in Self Sufficiency programs also qualify for medical assistance through the Oregon Health Plan.

The Food Stamp program is a federally funded benefit program to help low-income families, single adults, and childless couples buy the food they need to stay healthy. The food stamp benefit is based on household size, income and expenses. The average household benefit is about $150 per month; a family of three would receive a maximum of $366 monthly. Recipients receive an Oregon Trail Card to access benefits through electronic funds transfer at the point of sale. The benefit costs are included in the Children, Adults and Families budget as Non-Limited funds, although eligibility determination staff costs are included in the Community Human Services program area budget as limited expenditures.

Temporary Assistance to Needy Families (TANF) This program, formerly referred to as Aid to Dependent Children (ADC), provides cash assistance, which, when coupled with food stamps, supplies minimal support for families with children under the age of 19 that meet eligibility criteria. Income qualification and benefit amounts are based on family size and expenses. A family of three must have income under $616 per month to qualify, with limited cash resources. The maximum monthly benefit for a family of three is $498. The combination of cash assistance and food stamps provides families with resources equivalent to about 70% of the federal poverty guideline.

Job Opportunity and Basic Skills (JOBS) Education, training, and job placement services are provided to welfare clients with the goal of helping them get and keep a job. The program is administered through the state, but services are delivered through an extensive network of community partners. Services include Basic Education, focused on high school completion and English as a Second Language education; classes in life skills such as time management and personal budgeting, with an emphasis on building clients' ability to succeed in the job market; job search skills; classroom training in vocational and technical skills; and other job training and work experiences.

Employment Related Day Care This program is designed to encourage employment by subsidizing child care services to former or potential cash assistance recipients or persons currently on cash assistance who are participating in training programs. Clients pay a minimum co-payment and the agency subsidizes the remaining cost on a sliding scale, based upon the client's income and the number of children needing child care services.

Emergency Assistance provides one-time help for families with children under age 18 who have no other financial resources and find themselves in an emergency situation caused by circumstances beyond their control. The purpose of the program is to prevent households from becoming dependent on more expensive long-term public assistance—in other words, diverting persons from the cash assistance caseload. The maximum annual benefit is $100 for most families; victims of domestic violence are eligible for up to $1,200. Persons receiving TANF cash assistance are not eligible for this program except in cases of domestic violence.

Refugee Program This program operates in conjunction with community groups and other social and workforce agencies to provide time-limited cash and medical assistance, food stamps and employment services to new refugees to the country.

Prevention Services includes education and coordination of state and local teen pregnancy prevention efforts, and funding for the Community Safety Net that links families with community resources to help prevent child abuse and neglect. Other efforts address juvenile crime prevention, drug and alcohol prevention, suicide prevention, school drop out prevention, and education and workforce development.

The Child Support Program collects child support payments from non-custodial parents and distributes the collections to the families. If the family is receiving public assistance, the collected payments go to the state to offset the cost of the assistance. Program policy and oversight functions are currently the responsibility of the Department of Human Services. Child support establishment and enforcement services are provided by contract with the Department of Justice Division of Child Support and local district attorneys, with the Division of Child Support also providing the fiscal support functions and parent locator service.

Budget Environment

The number of families receiving cash assistance has declined dramatically since 1994 and was expected to continue to decline through the 2001-03 biennium. As Oregon's economy weakened, however, cash assistance caseloads grew from 16,161 cases in July 2001 to 18,409 cases in December 2002, a 13.9% increase. JOBS program services and day care subsidies are ways to reduce cash assistance caseloads, but funding for these programs was reduced during the 2001-03 biennium due to the decline in state revenues and other caseload growth in the Department of Human Services. In July 2001, JOBS participants numbered 22,737, but dropped to 20,163 in November 2002. Day care cases dropped during the biennium as well, from 25,573 in July 2001 to 23,708 in November 2002.

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, make it harder for clients to find and keep employment. This problem is expected to continue in the foreseeable future. Federal TANF reauthorization is expected to impose higher work participation requirements and increased demand for child care without a commensurate increase in TANF block grant funding for states. It is uncertain how the federal reauthorization will affect Oregon's self sufficiency programs.

A 2002 report from the Center on Hunger and Poverty at Brandeis University showed Oregon to have the highest prevalence of hunger (6.2%) of any state, and the third highest level (14.3%) of "food insecurity" behind New Mexico and Texas, based on 1998-2000 data. Food stamps are one way to directly address hunger. Food stamp caseloads and benefits have grown significantly in the 2001-03 biennium, from 146,642 households in July 2001 to 189,513 households in November 2002. This is a 29.2% increase over a 17-month period. Changes in federal eligibility policy, Oregon's economic conditions and increased outreach efforts by the Department of Human Services and community organizations are all factors in this growth.

Governor's Budget

The 2003-05 budget for Self Sufficiency programs is 6.5% General Fund less, but 9.0% total funds more, than the 2001-03 legislatively adopted budget for these programs. The total funds increase reflects an additional $186 million in federal food stamp benefits, a 34.6% increase above the 2001-03 legislatively adopted budget.

Budget actions taken in the 2001-03 biennium are carried forward into the 2003-05 biennium. These include reductions in JOBS education and support services; elimination of the JOBS Plus wage-subsidized employment program; elimination of day care assistance for post-secondary students; changes in eligibility for Employment Related Day Care from 185% to 150% of federal poverty guidelines; increased client co-payments for Employment Related Day Care; and an average $5 monthly reduction in the TANF cash assistance grant. No inflation or cost-of-living increases are included for 2003-05.

The budget also includes a package to transfer responsibility for the Child Support program to the Department of Justice, in connection with HB 2340.

CAF – Child Safety

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	14,934,433	18,723,447	n/a	5,460,535
Other Funds	13,378,238	6,803,835	n/a	4,380,761
Federal Funds	16,470,122	16,184,647	n/a	12,872,345
Total	**44,782,793**	**41,711,929**	**n/a**	**22,713,641**
FTE	0.00	0.00	n/a	0.00

Program Description

Child safety is comprised of a variety of purchased or contracted child protective services, family preservation services, and domestic violence services. Services are intended to support families and develop or provide appropriate care to children when a threat to child safety is identified.

Family Support Teams These multidisciplinary teams intervene with families with pre-school age children and parental substance abuse, where there have been allegations of child abuse and neglect. The teams help ensure child safety and provide services and support to address the substance abuse issues.

Mutual Home Foster Care Seven homes located across the state provide transition and stabilization for single, drug-addicted parents and their children after completion of residential alcohol and drug treatment.

Family-Based Services These purchased services are intended to help maintain children who are at risk of abuse safely in their homes. They include intensive home-based "home-builder" services, family therapy, family decision meeting facilitation, group and individual therapy for incest victims and non-offending parent; group and individual parent education; in-home paraprofessional home management and parenting support; and after care services. Supportive Remedial Day Care, which provides respite care for parents of special needs children, is also part of these services.

System of Care Flexible funds are used to support specific services not available through other sources but needed to address the individual requirements of children and families. Examples include mentoring services, behavioral intervention specialists, or specialized treatment services. These services are provided as part of the 1995 legal settlement agreement with the Juvenile Rights program and the National Center for Youth Law.

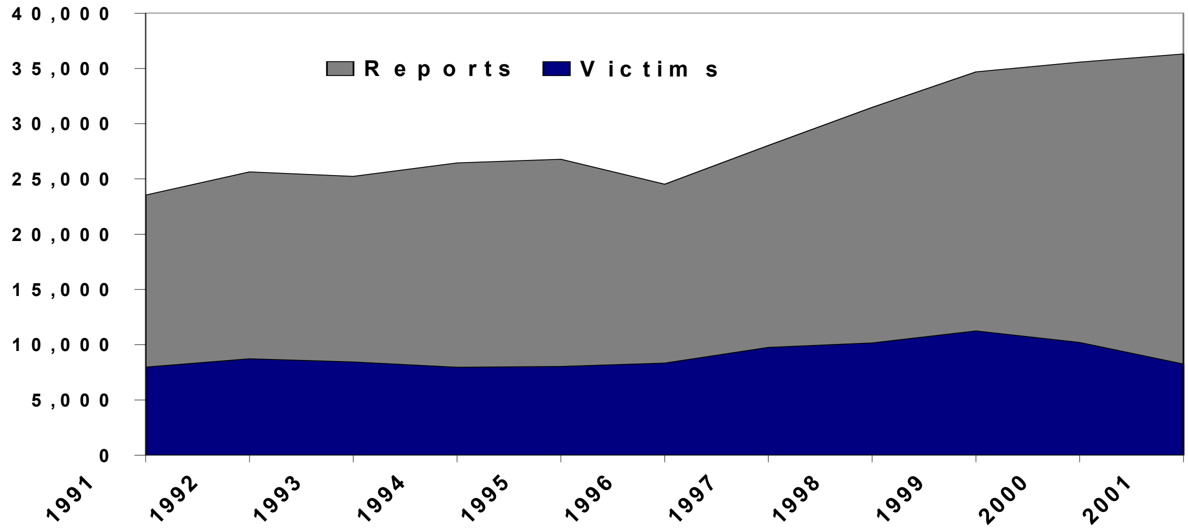
Domestic Violence and Sexual Assault Services The Domestic Violence Program and the Sexual Assault Victims Fund provide grants to community programs that provide services such as crisis lines, emergency shelter, and other supports to survivors of domestic violence and sexual assault and their children.

The 2001-03 budget transferred the Child Abuse Multidisciplinary Intervention program and funding to the Department of Justice effective January 2002.

Budget Environment

In 2001, CAF received 36,303 reports of abuse and neglect; 8,232 victims were found. The number of victims is about 1% of the state's 865,000 children aged 0 to 18.

The following table shows the number of reports and abuse victims over the last 11 years. Total abuse and neglect reports increased by more than 50% over that period. The number of victims peaked in 1999, and has dropped significantly in the past two years, to about the same level as in 1991. By comparison, there was almost a 15% increase in the number of children in the state over that 11-year period.



Child safety expenditures are designed to provide early intervention and support services to families to help prevent out-of-home placement or return children home more quickly. For example, research on the System of Care flexible funding has shown a positive correlation between the funding and lower re-abuse rates and shorter length of stays in foster care. However, contracted services and System of Care flexible funds have been reduced during the 2001-03 biennium due to declining statewide revenues and caseload growth in other Department of Human Services programs.

Governor's Budget

The Governor's budget is 70.8% General Fund and 45.5% total funds below the 2001-03 legislatively adopted budget level. This reflects the 2003-05 impact of reductions made during the 2001-03 biennium to contracted family treatment and support and supportive remedial day care. No inflation or cost-of-living increases are funded. However, System of Care flexible funds are partially restored with $3 million General Fund.

CAF – Substitute Care

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	49,718,060	62,495,488	n/a	51,426,464
Other Funds	11,359,219	11,730,940	n/a	12,633,928
Federal Funds	90,873,781	98,510,368	n/a	98,373,155
Total	**151,951,060**	**172,736,796**	**n/a**	**162,433,547**
FTE	0.00	0.00	n/a	0.00

Program Description

Substitute care provides out-of-home care to children in foster care or residential care settings. Some limited funding is available through Foster Care Prevention Funds and a federal foster care waiver agreement to tailor services or purchase items needed to prevent foster care placement or reduce time spent in foster care.

Foster Care represents a broad range of care, supervision, and treatment services for children in the temporary or permanent custody of the state. Family foster care homes and "special rate" foster care are the primary elements of the service system. Family shelter care offers emergency, temporary placements. Family group homes and treatment foster care provide specialized services for children with behavioral and emotional problems that require more support. Children with documented physical or mental impairments receive Personal Care Nursing assessments and services. Assisted Guardianship funding is used to facilitate permanent placements for some children for whom returning home or being adopted is not an option. An Independent Living Subsidy is available for some older youth who are working toward independence. Other services include Other Medical payments for medical services not available through Medicaid, Interstate Compact payments for children being placed out-of-state or returning to Oregon from another state, and One-Time Payments for extraordinary needs.

Residential Care is provided by private agencies in residential or therapeutic foster care settings for children who cannot live in a family setting. Crisis Case Management include crisis intervention and shelter care placements, transportation, intensive family counseling, and after care when appropriate. Statewide Residential Treatment Programs supply professional assessments, supervision, and counseling for behaviorally and emotionally disturbed children. Special Contracts are used for specialized, short-term placements. Target Children expenditures buy individualized services for severely disabled children when other appropriate resources are not available. Professional Shelter Programs, Therapeutic Foster Care Programs, and Residential Programs allow intense supervision, evaluation, and treatment options for children with severe behavior and emotional problems.

Budget Environment

The number of children in substitute care has been relatively flat over the past four years. About 6,800 children on average are in care on any given day. Foster care is the primary care setting, with about 4,500 foster families providing care. About 40% of the children in care are 5 years of age or younger. Base foster care payment rates range from $350 per month for a child through age 5, to $449 per month for a teenager. The payment is partial reimbursement for the cost of room and board, clothing, school, and personal items. These rates were reduced during the 2001-03 biennium as a cost-saving measure.

There is upward pressure on substitute care costs overall because more foster care placements require special rates above the base foster care payment rate. Special rates are based on emotional, behavioral, mental, or physical problems which require special services for the children and increased skills and supports for foster parents and relative caregivers. Over half of all children in foster care require special rates or medical Personal Care payments. The average special rate payment is $583 per month. Other, higher cost services may be required in residential treatment or specialized service plans for children whose needs cannot be met by an existing residential program. These provider rates have not been increased since July 1, 2001.

Governor's Budget

The Substitute Care budget is down 17.8% General Fund and 6.0% total funds from the 2001-03 legislatively adopted budget. This reflects rate reductions made during the 2001-03 biennium for regular foster care and special rates foster care payments. The budget maintains payment rates at the lower 2001-03 levels, with no adjustment for inflation or cost-of-living increases for foster care or other providers.

CAF – Adoptions

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	22,161,491	38,837,302	n/a	44,272,888
Other Funds	560,013	1,126,157	n/a	1,413,914
Federal Funds	22,994,483	33,261,424	n/a	40,697,288
Total	**45,715,987**	**73,224,883**	**n/a**	**86,384,090**
FTE	0.00	0.00	n/a	0.00

Program Description

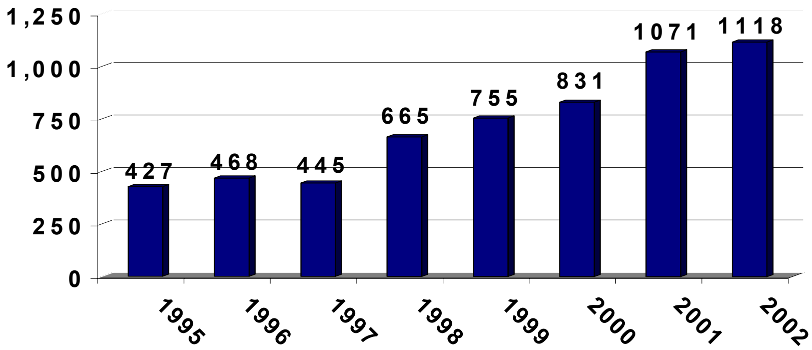
The Adoptions program provides services to help achieve permanent living placements for children in the juvenile system who cannot return home. The services include contracted permanent planning evaluations, legal assistance consultation, termination of parental rights litigation, open adoption mediation services, adoption home selection oversight, documentation for adoption finalization, and post-adoption support services. The program also maintains the statewide Adoption Registry and Assisted Search programs, and monitors all private agency and independent adoptions in Oregon.

Adoption Assistance is made available to help remove financial barriers to adoption for special needs children. The assistance can include one-time payments for adoption expenses, ongoing monthly cash subsidies and medical coverage, and one-time payments for extraordinary expenses for special needs adopted children.

Budget Environment

As shown in the following chart, adoptive placements have increased significantly in the past eight years. CAF is required to report finalized adoptions to the U.S. Department of Health and Human Services. There were

1,118 finalized adoptions in federal fiscal year 2002, up 161.8% from the 427 finalized adoptions in federal fiscal year 1995.



Adoption assistance payments are growing because almost all the children placed with adoptive families are considered to be special needs children, with one or more medical, emotional, mental, physical, or sensory disabilities. CAF expects to make payments for 9,200 children as of June 2005, compared to 7,800 projected as of June 2003. Payments generally continue until the children "age out" of the assistance payments at age 18. The average adoption assistance payment is $404 per month. Monthly adoption assistance payments were reduced by 7.5% effective February 2003 as part of the state's overall budget reductions.

Governor's Budget

The Governor's budget for the Adoptions program area is 14.0% General Fund and 18.0% total funds higher than the 2001-03 legislatively adopted budget. This reflects the continuing growth in adoption assistance caseloads. The budget carries forward the payment reductions made during the 2001-03 biennium, and does not add inflation or cost-of-living adjustments to those rates.

CAF – Other Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	456,987	442,277	n/a	754,113
Other Funds	6,534,925	1,586,129	n/a	1,618,832
Federal Funds	16,844,487	12,392,082	n/a	15,765,109
Total	**23,836,399**	**14,420,488**	**n/a**	**18,138,054**
FTE	0.00	0.00	n/a	0.00

Program Description

This budget unit is a compilation of programs, services, and grants. The Law Enforcement Medical Liability Account (LEMLA) pays for medical services for persons injured by police as a result of law enforcement apprehension. Claims are paid to medical service providers when efforts to recover costs from injured parties or their insurance companies fail. The budget includes transfers of federal Social Services Block Grant funds to the State Commission on Children and Families for its Youth Investment Program grants to counties and crisis/relief nurseries funding. Social Services Block Grant and Title IV-E funds are also passed through to Oregon's Native American tribes for child welfare services to Native American youth. Other programs include miscellaneous grants from the Annie E. Casey Foundation; the Child Abuse Prevention and Treatment Act (CAPTA) grant; and the Children's Justice Act.

Budget Environment

Funding for the Social Services Block Grant is capped at the federal level, and has been reduced over the last few biennia. The Legislature has generally chosen to use General Fund to replace Social Services Block Grant shortfalls in the Department of Human Services and the State Commission on Children and Families budgets, but did not fully backfill a $233,000 shortfall in the Commission's funding during the 2001-03 biennium. Federal funding levels for the 2003-05 biennium are still uncertain.

During the 2001-03 biennium, $2.0 million was to be transferred from the unused LEMLA balance to offset General Fund expenditures elsewhere in the Department of Human Services. This was a one-time fund shift.

Governor's Budget

The Governor's budget for Other Programs reflects increased General Fund support for Tribal Programs and increased Social Services Block Grant funding transfers approved in departmental budget rebalance actions during the 2001-03 biennium.

CAF – Program Support / Central Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	33,761,047	48,158,029	n/a	46,544,559
Other Funds	6,240,085	3,988,718	n/a	5,487,214
Federal Funds	60,029,487	64,123,901	n/a	67,310,472
Total	**100,030,619**	**116,270,648**	**n/a**	**119,342,245**
FTE	422.83	401.80	n/a	214.50

Program Description

This program provides policy direction and support for the Children, Adults and Families programs and operations. Staff develop policy, program, and practice guidelines; provide training, technical assistance, and one-on-one consultation to field staff, providers, and community partners; develop, award, and monitor contracts for services; provide program quality assurance including program reviews and audits; develop administrative rules; monitor compliance with state and federal law, rules, and regulations and maintain state and federal reporting requirements and state plans. The program licenses and monitors child care agencies, residential schools, and private adoption agencies. The Children's Benefit Unit works to maximize Social Security benefits, child support, and other income collections for children in substitute care.

Budget Environment

During the 2001-03 biennium, central administrative positions previously part of program area budgets were transferred to the Department-Wide Support Services budget as part of the agency's reorganization.

Governor's Budget

The Governor's budget reflects the 2003-05 impact of the administrative position transfers and elimination of additional Central Office positions. It continues positions added to support the Oregon Health Plan 2 waiver, approved by the Emergency Board during the interim. It also transfers 7 positions and related funding to the Department of Justice for the Child Support program in connection with HB 2340.

DHS/Community Human Services (CHS) – Program Area Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	181,726,460	194,372,267	202,836,481	252,296,944
Other Funds	15,900,804	22,005,020	28,352,301	20,879,976
Federal Funds	257,635,669	276,879,727	285,684,638	331,511,369
Total	**455,262,933**	**493,257,014**	**516,873,420**	**604,688,289**
FTE	3,835.35	3,928.33	3,905.68	4,415.92

Summary Description

The Community Human Services program is a new organizational structure created through the Department of Human Services (DHS) reorganization. The reorganization supports a "no wrong door" approach that is intended to improve client service by removing organizational barriers. To facilitate integrated delivery of services and benefits to clients and improved accountability, the CHS structure combines field staff formerly budgeted for in the Adult and Family Services Division, State Office for Services to Children and Families, Vocational Rehabilitation Division, Senior and Disabled Services Division, and the Community Partnership Team. A statewide network of more than 150 community offices, organized into 16 Service Delivery Areas, provides services and benefits to clients. Centralized support for program service delivery is provided through eligibility determination, payment processing, fraud investigation, and quality control functions. CHS also includes the Office of Vocational Rehabilitation Services, which is the designated state unit for administering the federal Vocational Rehabilitation Program.

Revenue Sources and Relationships

Other Funds make up less than 4% of this program budget. Over half of the Other Funds come from charges to other program areas within DHS. Other sources include federal Child Care and Development Funds transferred from the Employment Department, marriage license fees, food stamp collections, and a share of the tobacco tax revenues dedicated to the Oregon Health Plan. Contracts with local schools for Youth Transition Program services also provide Other Funds revenues that are matched with Federal Funds to support services for youth with disabilities.

About 55% of the Community Human Services budget comes from Federal Funds. Major sources are the Temporary Assistance to Needy Families (TANF) block grant ($88.7 million); Medicaid ($71.8 million); Medicare ($33.0 million); Foster Care and Adoption Assistance ($31.7 million); and Food Stamps ($27.6 million). TANF administration and direct service costs are paid as part of the state's total capped TANF block grant. The federal government reimburses part of the state's administrative and direct services payments for Medicaid, Foster Care and Adoption Assistance, and Food Stamps. The federal contribution is generally at an approximate 40% state/60% federal match rate for direct service staff but a 50% state/50% federal match rate for most administrative costs. Vocational rehabilitation services are funded primarily through the Rehabilitation Act of 1973's Basic 110 Grant, which provides almost 79% of funding for program services when matched with a 21% state contribution. The Community Human Services budget includes $53 million in Basic 110 Grant funds for vocational rehabilitation staff and services.

Budget Environment

The budget for Community Human Services reflects a compilation of staffing and program support expenditures previously budgeted in different DHS program areas. With the departmental reorganization, program services are delivered in the 16 Service Delivery Areas, which are structured differently across the state. The reorganization effort involves integrating state staff from individual program disciplines and varying numbers and types of local service providers in a way that addresses the needs and resources of each area of the state. A challenging undertaking at the best of times, the reorganization has been done in an environment of increased client demand for services and benefits, but program and staff reductions, due to Oregon's economic climate and statewide revenue downturn.

The 2001 Legislature and the Emergency Board did not fully fund caseload staffing growth in the 2001-03 biennium for self-sufficiency programs such as TANF and Food Stamps. Other reductions during the interim included elimination of vacant positions, and staffing adjustments for program reductions in JOBS, Employment Related Day Care, Temporary Assistance to Needy Families, child welfare System of Care, senior long-term care, General Assistance, and Medically Needy services. In October 2002, the Emergency Board added staff to determine client eligibility for the planned Oregon Health Plan (OHP) expansion under the OHP 2 waiver.

In the Vocational Rehabilitation Services program, General Fund support for the Sheltered Services Program and for Independent Living Centers was eliminated as part of the HB 5100 (2002 fifth special session) reductions.

Governor's Budget

The Governor's budget is a 29.8% General Fund and 22.6% total funds increase above the 2001-03 legislatively adopted budget as calculated for the reorganized Community Human Services structure. The large increase reflects phased-in personal services cost increases from the 2001-03 biennium and significant caseload staffing increases in mandated programs, predominately Food Stamps and child welfare programs. The Governor's budget carries forward almost all the reductions made in the 2001-03 biennium through November 2002, including the HB 5100 reductions, but restores some caseworker positions related to child welfare System of Care services. Standard inflationary increases totaling $919,407 General Fund are eliminated.

CHS – Program Support

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	169,522,613	184,889,269	n/a	240,085,228
Other Funds	13,433,690	15,727,876	n/a	16,969,005
Federal Funds	223,388,312	240,769,035	n/a	289,101,859
Total	**406,344,615**	**441,386,180**	**n/a**	**546,156,092**
FTE	3,804.82	3,899.61	n/a	4,314.28

NOTE: 2001-03 legislatively approved budget information is not available at the program level at this time.

Program Description

The DHS reorganization moved staff previously part of other program area budgets into the Community Human Services Program Support structure. This includes direct service field staff for self sufficiency, family safety, substitute care, adoptions, vocational rehabilitation services, services for elderly persons and those with developmental or physical disabilities. Program managers in each of the 16 Service Delivery Areas are responsible for directing field staff, providing case consultation, and clarifying program issues, policies and implementation. These managers include persons with expertise in specific program areas of self-sufficiency, child welfare, and seniors and people with disabilities. Program Support also includes the Oregon Health Plan Branch, which handles the statewide processing for Oregon Health Plan applications and determines program eligibility.

Revenue Sources and Relationships

Major Other Funds sources include child support and other assistance payment recoveries, fees and licenses, client trust accounts, and criminal fines and assessments revenues transferred to DHS.

Federal Funds that support programs delivered by field staff are also used to support the staff costs in this budget. These include Temporary Assistance to Needy Families, Child Welfare and Child Welfare Services, Child Support, Medicare, Medicaid, Social Services Block Grant, Children's Health Insurance Program, Food Stamps, and Older Americans Act block grants and matching funds. Some federal block grant funds, such as Temporary Assistance to Needy Families, Child Care and Development Fund, and the Social Services Block Grant are capped. When expenditures chargeable to these funds exceed the amount of federal funds available, the state has used General Fund to make up the shortfall.

Budget Environment

The Legislature has historically funded staffing for caseload growth in programs such as Food Stamps, certain child welfare programs such as foster care and adoption assistance, senior long-term care, and Oregon Health Plan eligibility determination. During the 2001-03 biennium, staffing for such caseload growth was not fully funded, and existing staff were required to handle increasing workloads.

Program reductions needed to meet 2001-03 budget reductions from HB 5100 will eliminate 42 positions related to child welfare System of Care efforts. The System of Care agreement requires DHS to provide services that address safety, well-being and permanency for children and families at risk of or in foster care placements. The staffing reductions, coupled with related program reductions in the Children, Adults and Families budget, will reduce Oregon's capacity to comply with federal child welfare regulations under the Adoption and Safe Families Act and increase the risk of legal action by child welfare advocates.

Other staffing adjustments are being made for budget reductions in Temporary Assistance for Needy Families cash assistance payments, JOBS program employment and support services, Employment Related Day Care, General Assistance and Medically Needy programs, and Medicaid long-term care services. In October 2002, the Emergency Board approved 45 additional positions for the planned expansion of the Oregon Health Plan (OHP) under the OHP 2 waiver.

Governor's Budget

The Governor's budget is 29.8% General Fund and 23.7% total funds higher than for the 2001-03 legislatively adopted budget. This reflects both phased-in costs of personal services increases during the 2001-03 biennium, and higher field staffing for Food Stamps, child welfare, and senior long-term care programs based on 2001-03 caseload growth and projected 2003-05 caseloads. The field staffing growth is offset in part by continuation of staffing reductions made in the 2001-03 biennium for program reductions. The Governor's budget also restores 29 positions (29.40 FTE) and related funding for child welfare System of Care staffing. Inflationary increases in services and supplies and capital outlay are not funded, a $534,857 General Fund savings.

CHS – Office of Vocational Rehabilitation Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,807,583	7,355,236	n/a	5,021,315
Other Funds	2,410,471	2,907,981	n/a	1,779,636
Federal Funds	25,513,998	27,215,988	n/a	27,349,322
Total	**35,732,052**	**37,479,205**	**n/a**	**34,150,273**
FTE	0.00	0.00	n/a	0.00

Program Description

The Office of Vocational Rehabilitation Services (OVRS) provides vocational rehabilitation services, assisting Oregonians with disabilities to achieve and maintain employment and independence. The primary programs of the Office are:

- Vocational Rehabilitation Services provides training, vocational, and educational services to persons with disabilities that are substantial impediments to obtaining or maintaining employment. Services are available through 33 field offices located throughout the state. Services include vocational evaluation, training, physical and mental restoration services, transportation, job placement, training supplies, and on-the-job training. Approximately 54% of funding is used to purchase training and educational services. Clients typically are assigned a vocational rehabilitation counselor who determines eligibility and then works with the client to develop a plan that will result in employment.
- 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. The program currently contracts with over 40 school districts.
- Supported Employment Services provides, on a time limited basis, vocational rehabilitation services to severely disabled clients for placement in community based competitive work sites. The program estimates about 500 clients will be served in this program during the 2003-2005 biennium.
- Interagency Partnerships focus on interagency collaboration to allow expanded services to Vocational Rehabilitation clients who are also clients of other agencies. Examples include the JOBS program and Foster Care Transition.

Revenue Sources and Relationships

The primary funding source for the Office of Vocational Rehabilitation Services is revenue supporting Section 110 of the federal Rehabilitation Act of 1973 (Basic 110 Grant). Congress appropriates an amount that is distributed to states based upon population and per capita income. The matching rate is about $3.70 of federal dollars for every state dollar. Over the years, Oregon has consistently found matching resources, either General

Fund or other agency matching funds, to obtain all of the state's allocation. For example, during the 2003–05 biennium, the agency expects to receive about $1.8 million from school districts that it will use to match Section 110 funds for transition services for youth with disabilities.

DHS receives about 87.5% of Oregon's allocation of Section 110 Federal Funds and the Commission for the Blind receives the remaining 12.5% of the federal allocation. A budget note in the agency's 1997-99 budget bill directed the Department of Administrative Services to study the current allocation of federal "110" funding between DHS and the Commission. The study, presented to the Emergency Board in 1998, concluded that any allocation method would be based on arbitrary criteria—that no allocation method could be objective.

DHS's share of Oregon's Section 110 allocation is expected to be about $54.5 million for the 2003-05 biennium. These funds are used in the OVRS budget for rehabilitation services ($25.3 million), for field staff and central administrative staff in the Community Human Services Program Support and Central Administration budgets ($27.8 million), and in the Department-Wide Support Services budget ($1.5 million)

Rehabilitation Services revenue also includes federal Rehabilitation Act funds for Supported Employment ($754,768), and staff training ($175,596). In addition, the program receives some Social Security Administration funds to reimburse the agency for costs to provide services to persons receiving Social Security Disability Income (SSDI) or Supplemental Security Income (SSI) who are competitively employed for nine consecutive months ($1.2 million).

Budget Environment

When a state rehabilitation services program cannot respond promptly to those seeking services, the federal Rehabilitation Act requires the agency to serve the most severely disabled persons first. This federal mandate to effectively triage clients is called an "order of selection." The Rehabilitation Services program is not currently operating under this mandate. However, approximately 96% of all eligible clients it expects to serve during the 2003-05 biennium are persons with disabilities that are classified by federal law as severe. The agency believes it may be forced to use an order of selection in the near future.

Congress passed the Workforce Investment Act of 1998. This legislation attempts to provide better coordination of workforce training programs and included the reauthorization of the 1973 Rehabilitation Act. The implications for the Rehabilitation Services program are not yet fully known, but the legislation places renewed emphasis on client participation in the development of training plans and requires state workforce agencies to work more closely together in developing and providing a full menu of vocational services for clients.

Congress enacted the Ticket to Work and Work Incentives Improvement Act in 1999. This legislation attempts to address a significant concern of people with severe disabilities who want to work—the worry of losing one's insurance coverage for health care should their employment cause them to lose eligibility for benefits such as Medicare and Medicaid. In general, the federal act allows persons with disabilities to retain Medicaid health care coverage when they earn wages. In theory, this means that many persons with severe disabilities who never considered working may want to pursue vocational goals and seek rehabilitation services. DHS does not anticipate a flood of new clients, but it does believe there will be an increase in clients—particularly those with very severe disabilities. If the agency does successfully assist more persons receiving SSI or SSDI benefits, it could see an increase in SSI or SSDI reimbursement revenue. However, the Work Incentives Improvement Act also allows other agencies within a certified employment network to assist SSI and SSDI recipients with their vocational efforts. These other agencies could, in turn, be eligible for SSI and SSDI reimbursement. DHS recently learned that Oregon has been designated one of twelve states to pilot the provisions of the Ticket to Work and Work Incentives Improvement Act.

Governor's Budget

The Governor's total funds budget of $34.1 million includes a $2.2 million reduction in General Fund, carrying forward program changes made or planned during the 2001-03 biennium. The Governor's budget:

- Eliminates the Sheltered Services Program ($851,785 General Fund) for about 100 severely disabled clients working in rehabilitation facilities.
- Eliminates $1.3 million General Fund added in the 2001-03 budget for the Independent Living Infrastructure Program, which supports grants to local Independent Living Centers.
- Does not fund $32,484 General Fund in inflationary increase for remaining program services.

CHS – Central Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	4,396,264	2,127,762	n/a	7,190,401
Other Funds	56,643	3,369,163	n/a	2,131,335
Federal Funds	8,733,359	8,894,704	n/a	15,060,188
Total	**13,186,266**	**14,391,629**	**n/a**	**24,381,924**
FTE	30.53	28.72	n/a	101.64

Summary Description

Central Administration provides management oversight and central support for field Service Delivery Area operations, and works to ensure that field requirements are considered as policy is developed in the Children, Adults and Families; Health Services; and Seniors and People with Disabilities program areas. The Office of Vocational Rehabilitation Services central office staff is also part of this budget.

Central Administration also includes programs which help to ensure program integrity:

- The Fraud Investigations Unit investigates allegations of fraud and abuse in the TANF, food stamps, child care and Oregon Health Plan programs.
- Quality Control Unit reviews food stamps and Oregon Health Plan cases to determine accuracy of eligibility determination and benefit amounts.
- Direct Pay Unit processes child care provider listings and payments to qualified child care providers.

Governor's Budget

The Governor's budget is 238% General Fund and 69.4% total funds higher than the 2001-03 legislatively adopted budget for this budget structure. The increase is primarily a result of 78 positions transferring into this structure during the 2001-03 interim. The budget reflects 2001-03 biennium reductions for this budget unit which eliminated 1 position and eliminated cost of living increases for positions at salary range 38 and above. It also eliminates $352,066 General Fund for inflation and price list increases in services and supplies expenditures.

DHS/Department-Wide Support Services (DWSS) – Program Area Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	76,730,089	56,035,711	93,238,608	66,159,199
Other Funds	133,792,955	123,981,033	141,376,309	140,244,040
Federal Funds	87,955,678	109,658,456	169,207,181	165,187,858
Total	**298,478,722**	**289,675,200**	**403,822,098**	**371,591,097**
FTE	731.49	675.30	917.58	925.18

Summary Description

The Director's Office, centralized business services, and other administrative support for DHS programs are all part of Department-Wide Support Services. The Central Administration unit includes the Office of the Director, Finance and Policy Analysis, and Administrative Services. The Program Support unit includes financial recovery staff, the Deaf and Hearing Impaired Access Program (DHIAP), and Continuous System Improvement Services. These program units are described in more detail below.

Revenue Sources and Relationships

In past biennia, funding for DWSS came primarily from a pro-rated assessment charged to the various DHS divisions and program offices. The pro-rate cost was included in the budgets for the divisions and program offices; DWSS collected the revenue and reflected the expenditures as Other Funds in its budget. Midway through the 2001-03 interim, DHS discontinued the pro-rate in connection with its revised federal cost allocation plan. Expenditures previously budgeted in the divisions and program offices for the centralized services were moved to DWSS, with the supporting funding transferred from the programs as appropriate. This more accurately reflects the various funding sources used to support DHS's central services. However, the Governor's budget still includes $120 million Other Funds expenditure limitation based on the pro-rate, so there is some double counting of central administrative expenditures. DHS is reviewing the adjustments that need to be made in the DWSS and other program area budgets to accurately reflect the elimination of the pro-rate.

The DWSS budget includes $10.7 million Other Funds from recoveries of Medicaid and other over payments. Also, based on the new DHS federal cost allocation plan, some DWSS costs will be allocated to the Title VI Child Care grant DHS received from the Employment Department, and to various federal Public Health grants. The DWSS budget assumes $5.3 million Other Funds from the Child Care grant and $4.9 million Other Funds from the Public Health grants.

Federal Funds in the DWSS budget are primarily Title XIX Medicaid administrative reimbursement, estimated at $134.6 million for the 2003-05 biennium. Federal Funds are also received for administrative support for Title IV-A Temporary Assistance to Needy Families, Title XVIII Medicare, Title IV-E Foster Care and Adoption Assistance, Title IV-D Child Support, and other federal program funding sources.

Budget Environment

During the 1995-97 biennium, support services positions were transferred from other DHS offices and divisions to the Director's Office. The goal was to reduce costs, improve services, and encourage shared responsibility and accountability. Included in the consolidation were accounting, personnel and payroll, contract administration, budget coordination, building operations, and information systems functions. The DHS reorganization in the 2001-03 biennium moved more than 280 additional administrative and support services positions from the program units to DWSS.

The 2001-03 legislatively adopted budget for DHS was reduced by a total $4 million General Fund overall, in anticipation of efficiencies from the departmental reorganization. DHS was to identify an additional $6 million in savings to be reinvested in other expenditures needed to support the reorganization, such as information systems and training. A total of $5.7 million General Fund savings has been identified, but in the face of the statewide budget reductions, only $2.4 million of the savings will be spent. About two-thirds of the $2.4 million, $1.6 million, was allocated for information systems work.

DHS operates with a multitude of computer information systems, many of which are decades-old mainframe systems. It has updated or modified some systems to meet federal program requirements, often with advantageous Federal Funds match rates. The current reorganization effort offers opportunities for improvements in business operations and systems integration. However, restricted resources have limited progress in consolidating and updating systems. Further, the federal Health Insurance Portability and Accountability Act implemented new federal mandates for computer systems and staff management of health care information, adding significant workload to DWSS' ongoing systems management and application development responsibilities.

With most business services now centralized, changes in DHS program caseloads and services can affect workload in DWSS. For example, increased field staffing to process food stamp applications affects human resources, payroll, facilities, and other central services. There is no automatic adjustment to central administrative staff with program increases or decreases.

During the 2001-03 biennium, funding for DWSS was reduced by a total of $9.3 million General Fund as part of DHS rebalance plans and 2002 special session actions. The General Fund reductions were made through selected staffing cuts, enhanced federal funds support for information system projects, and other management actions to identify one-time savings or reduce ongoing information systems expenditures.

Governor's Budget

The 18.0% General Fund and 28.3% total funds increase from the 2001-03 legislatively adopted budget reflects phased-in funding for greater centralization of administrative staff during the 2001-03 biennium and increased funding for the continued development of the Medicaid Management Information System replacement project. Budget and staffing reductions made during the 2001-03 interim are also carried forward, with an additional reduction of $1.4 million General Fund for inflationary increases in Services and Supplies expenditures.

The budget also anticipates legislation that transfers the child support program from DHS to the Department of Justice (HB 2340), transfers statutory responsibility for the Children's Ombudsman from the State Commission on Children and Families to DWSS (SB 143), and clarifies timelines for claims against estates for recovery of public assistance (HB 2342).

DWSS – Central Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	73,445,517	54,216,304	n/a	61,544,412
Other Funds	131,535,524	122,187,280	n/a	136,309,634
Federal Funds	86,888,343	107,991,855	n/a	160,790,814
Total	**291,869,384**	**284,395,439**	**n/a**	**358,644,860**
FTE	688.07	650.26	n/a	821.26

NOTE: 2001-03 legislatively approved budget information is not available at the program level at this time.

Program Description

The Central Administration unit includes the Office of the Director, Finance and Policy Analysis, and Administrative Services:

- *Office of the Director* houses the Governor's Advocacy Office, internal audits, tribal relations, legislative and intergovernmental affairs, and executive policy analysis and development, as well as the DHS Director and Deputy Director and administrative support staff.
- *Finance and Policy Analysis* handles fiscal and policy issues related to budget and operations, such as caseload and cost forecasting, budget development and tracking, and provider rate setting.
- The *Administrative Services* section includes accounting and financial reporting, payroll, communications, contracts and purchasing, facilities, forms and document management, human resources, and information systems support for all the DHS programs.

Budget Environment

This program unit has grown significantly during the 2001-03 biennium due to transfer of 209 administrative services positions and related funding from other program areas within DHS. A total of 53 positions for the Community Partnership Team, LifeSpan Respite Care, health care interpreters, and an employment grant was transferred from DWSS Central Administration to the budgets of Community Human Services, Health Services, and Seniors and People with Disabilities. Emergency Board actions during the biennium added 13 more positions related to planned expansion of the Oregon Health Plan (OHP) under the OHP 2 waiver. However, special session and budget rebalance actions during the biennium eliminated funding for a total of 39 positions in Administrative Services, the Director's Office, and Finance and Policy Analysis. Other General Fund reductions were made to reflect $2.0 million in General Fund savings from higher federal funding levels for the Medicaid Management Information System and mental health information system projects, $2.1 million in other information systems project savings and reductions, and $1.1 million in administrative Services and Supplies expenditure reductions.

Governor's Budget

The Governor's budget reflects staffing and cost phase-ins from the 2001-03 biennium, including adjustments taken as a result of the 2002 special sessions and interim Emergency Board actions described above. It also eliminates inflation increases for Services and Supplies expenditures, for a $1.4 million General Fund reduction.

The budget includes $7.4 million General Fund and $63.2 million Federal Funds to continue development of a replacement for the state's Medicaid Management Information System. The existing system is outdated and cannot meet all requirements for processing and reporting Medicaid program activity. Oregon may face financial penalties if federally mandated modifications are not done. Work on the system began in the 1999-2001 biennium, and is expected to be completed during the 2005-07 biennium. The 2003-05 budget package adds 14 permanent full-time staff (14.00 FTE) and 44 limited duration positions (43.13 FTE) for development, implementation and on-going maintenance work on this project.

On-going work on the Women, Infants and Children Information Tracker system (TWIST) is continued, with $763,734 Federal Funds and 1 new permanent position (1.00 FTE). This system will address deficiencies identified in a review of the program by the U.S. Department of Agriculture. The system is expected to be operational statewide by January 2004.

The budget also reflects transfer of the remainder of the child support program to the Department of Justice, reducing General Fund by $451,016 and Federal Funds by $875,501 in DWSS. The statutory program transfer is in HB 2340.

The Governor's budget adds one new position (1.00 FTE) to provide assistance to local school districts and monitor Medicaid school-based health services. The position is funded with Medicaid administrative match on local school district funds, for $83,648 Other Funds and $83,369 Federal Funds.

HB 2342 would clarify timelines related to claims against estates for recovery of public assistance. The budget reflects an expected $27,000 General Fund savings in Attorney General expenditures from passage of that bill.

DWSS – Program Support

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,284,572	1,819,407	n/a	4,614,787
Other Funds	2,257,431	1,793,753	n/a	3,934,406
Federal Funds	1,067,335	1,666,601	n/a	4,397,044
Total	**6,609,338**	**5,279,761**	**n/a**	**12,946,237**
FTE	43.42	25.04	n/a	103.92

Program Description

The Program Support budget is made up of the Financial Recovery Unit, the Deaf and Hearing Imparied Access Program (DHIAP), and Continuous System Improvement.

- The *Financial Recovery Unit* is responsible for billing and collection activities for client resources that help cover costs of insitutional care, overpayments to clients and providers, reimbursement from clients' health plans or other third party resources, estate collections, and other revenue sources.
- *DHIAP* provides services for deaf or hard of hearing clients through contracts with the Oregon Disabilities Commission.
- *Continuous System Improvement* staff works with all DHS programs to support training, research and evaluation, process improvement consultation, performance measures, and accountability.

Budget Environment

Personal Services costs make up almost all (95%) of DWSS' Program Support expenditures. The budget increased significantly during the 2001-03 biennium with departmental rebalance plan actions that transferred 85 financial recovery positions and related funding to this budget area. Financial recovery staff are expected to generate $51.9 million in collections during the 2003-05 biennium, a 1.2% increase from the 2001-03 biennium. These revenues are used to offset General Fund expenditures for program services elsewhere in DHS.

DHS originally expected to allocate $1.5 million of the $6 million of reorganization savings for Continuous System Improvement (CSI) work, but now expects to spend only about $128,000 in that area due to budget reductions during the interim. The Director's Office is also re-evaluating the functions and staffing for the CSI unit (21 positions and 20.38 FTE in the Governor's budget).

Governor's Budget

The Governor's budget carries forward the 2001-03 biennium adjustments into the 2003-05 biennium, and eliminates $2,431 General Fund in Services and Supplies inflationary increases.

DHS/Health Services (HS) – Program Area Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,033,426,893	1,151,465,861	937,677,687	948,348,383
Lottery Funds	5,045,990	7,145,478	6,434,058	6,878,546
Other Funds	425,336,933	574,593,321	857,935,935	723,869,291
Federal Funds	1,908,327,453	2,279,473,439	2,495,937,591	2,193,228,726
Nonlimited	91,805,803	104,550,000	110,879,000	108,209,250
Total	**3,463,943,072**	**4,116,064,781**	**4,408,864,271**	**3,980,534,196**
FTE	1964.70	2116.20	2093.13	2194.00

Note: The 2001-03 Legislatively Approved Budget is based on the 2001-03 DHS budget rebalance plan approved by the Emergency Board in November 2002.

Summary Description

The Health Services Cluster includes public health programs, mental health and addiction prevention and treatment services, the Oregon Health Plan, and program support and central administration. It is the largest of the Department's cluster budgets and the Governor's budget includes $948.3 million of General Fund. The chart below summarizes the funding levels for each major program area within the Health Services Cluster.

Governor's Budget (In millions of $)	General Fund	%	Total Funds	%
Public Health	12.9	1	217.1	5
Oregon Health Plan	590.1	62	2,977.5	75
Mental Health & Addiction Services	290.3	31	470.7	12
Program Support & Cent. Admin.	53.8	6	314.0	8
Capital Improvements - State Hosp.	1.2	0	1.2	0
Total	948.3	100	3,980.5	100

Public Health Programs work at the local level to provide support and technical assistance to county health departments. Public Health programs assure statewide control of environmental public health hazards through safe drinking water, radiation protection, and sanitation programs. In addition, program staff administer preventive health programs and services, regulate hospitals, and oversee the state emergency medical system.

The Oregon Health Plan provides medical care to over 400,000 low income Oregonians. The Health Plan includes the state's Medicaid waiver programs, the Children's Health Insurance Program (CHIP), and the payment of Medicare premiums for certain eligible populations.

The Mental Health and Addiction Services budget includes the costs of operating the State Hospital (including staffing of 1,321.79 FTE) as well as payments to various community organizations (e.g., non-profits and local governments) that provide treatment services for persons with mental illness and substance addictions.

The Program Support and Central Administration budget provides funding for staff who provide policy direction and administrative support for cluster programs as well as persons who manage the Health Plan's automated claims payment system. In addition, this budget funds staff that implement and enforce public health regulations and standards.

Revenue Sources and Relationships

Other Funds revenue includes a significant amount of Tobacco Tax (nearly $400 million), pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental agency funds eligible for federal match.

Federal Funds revenue is dominated by Medicaid which accounts for better than 85% of the cluster's $2.2 billion federal revenue sources. Medicaid requires a state match and the match rate is recalculated each year by the federal government. The composite match rate used in the Governor's budget for Medicaid is 39.11% state funds and 60.89% Medicaid funds. Other federal revenue sources include the Children's Health Insurance Program (CHIP), Alcohol and Drug and Mental Health Block Grants, and numerous smaller federal grants related to public health.

Non-limited funds support the Family Health Services program and consist of federal Women, Infants, and Children (WIC) food grants and Other Funds rebates from the manufacturers of infant formula.

Budget Environment

The Health Services cluster includes programs that provide health care, mental health, and addiction services and promote public health. As such, the program budgets are subject to a variety of influences. Certainly, population growth is a factor in all these budgets—most notably in the public health area. In addition, the Oregon Health Plan budget is greatly influenced by federal Medicaid law, the Centers for Medicare and Medicaid Services (CMS—the federal agency which oversees Medicaid), and the rise in health care costs and utilization. For example, the actuary who calculates the rates that may be paid to fully capitated health plans to provide managed care estimates that these rates should be raised more than 25% in the 2003-05 biennium to account for increases in utilization, medical inflation, and actual cost increases over the 2001-03 biennium. Also, the Oregon Health Plan caseload grew throughout the 2001-03 biennium as the economy worsened. Mental Health and Addiction Services have, fortunately, been greatly influenced by the nature of mental illness and effective treatment. An ideal system would offer a continuum of services because mental illness and health are also on a continuum. For this reason, services over the last 40 to 50 years have become less institutional and centralized and more community-based. In addition, the advancement of pharmacological treatment has also enabled more mental health services to be provided at the community level.

Governor's Budget

For the most part, the Governor's budget continues reductions that were initiated during the 2001-03 biennium to balance the statewide budget. In particular, the budget continues reductions that were implemented in response to HB 5100 that was adopted during the fifth special session. These reductions are discussed below in respective program sections. In addition, the budget does not include inflationary, or in the case of the health plan—utilization, adjustments that would have required a significant amount of additional General Fund. The Governor's budget also eliminates adult dental services and implements a more stringent prior authorization process for the distribution of prescription drugs in the Oregon Health Plan.

HS – Health Planning and Community Relations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	4,385,279	4,494,913	n/a	4,216,253
Other Funds	67,607	0	n/a	0
Federal Funds	1,518,063	1,697,888	n/a	805,102
Total	**5,970,949**	**6,192,801**	**n/a**	**5,021,355**
FTE	0.00	0.00	0.00	0.00

NOTE: 2001-03 legislatively approved budget information is not available at the program level at this time.

Program Description

The Office of Health Planning and Community Relations is responsible for strengthening the application of policy, planning, and performance measurement across Health Services. The office provides support and technical assistance to county health departments and oversees county health plans and funds from DHS. The office also provides operations support to Health Services programs, and evaluates the quality of services provided. This is accomplished through three major sections and two programs.

- *Community Liaison* consults, collaborates, and coordinates activities between local health and mental health departments and Health Services.
- *Policy, Planning and Performance Measurement* strengthens the application of policy, planning, and performance measurement functions within Health Services.
- *Program Operations* work closely with all offices and program units across Health Services to meet DHS objectives for effective resource utilization.
- *Intergovernmental Relations and Special Projects* provides leadership and facilitates intergovernmental relations coordination across Health Services and provides legislative coordination.

Revenue Sources and Relationships

Federal Funds revenue of $805,102 support approximately 16% of the Office of Health Planning and Community Relations program. The funds consist of two grants received from the Centers for Disease Control; the Preventative Health Block Grant ($43,446) and the Health Alert Network Program Grant ($761,656).

Budget Environment

The program's budget is driven primarily by the growth in Oregon's population, but also is affected by increasing medical costs. As in-migration to the state continues, there is more demand for health services, more need for health education, and more need for health surveillance to avoid or minimize communicable disease outbreaks.

Governor's Budget

The Governor's 2003-05 budget of $5 million includes program changes that occurred during the 2001-03 biennium, primarily the phase-out of various Other Funds and Federal Fund grants that have now expired. The budget also includes package expenditure changes to manage the reduction targets based on special session actions during the interim. The changes include reducing the per capita payment given to counties for communicable disease control.

HS – Public Health Systems

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	44,441	300,650	n/a	0
Federal Funds	854,330	1,044,199	n/a	1,532,586
Total	**898,771**	**1,344,849**	n/a	**1,532,586**
FTE	0.00	0.00	0.00	0.00

Program Description

The Office of Public Health Systems program area establishes policies and carries out activities designed to improve the health and safety of Oregonians. It monitors the health status of communities and the performance of the health care system, and has a regulatory role in ensuring that public facilities, drinking water systems, and health care facilities and equipment meet state and federal requirements. Services are provided primarily through county health departments and other community and tribal health organizations. The program provides services directly where there is no local health provider or where highly specialized services require a central program. Direct services include laboratory testing and investigating outbreaks of diseases. The program provides technical assistance, consultations with health care providers, and targeted health education programs. The Health Care Licensure and Certification section carries out certification surveys of Medicare-certified providers and suppliers.

Revenue Sources and Relationships

Federal Funds support 100% of the Office of Public Health Systems. The Drinking Water Program receives two Environmental Protection Agency (EPA) grants; the EPA Primacy Grant (28%), and the EPA State Revolving Fund (66%). The Center also receives federal funding through Health Care Licensure and Certification for Medicare Survey/Certification (6%).

Budget Environment

During the 2001-03 biennium, the national priorities changed and the expectation for individual states to make improvements in their local preparedness capacity. New federal funds have been made available, however, basic services are not adequately supported. With the increased demands being placed on county-based systems, there is a lack of infrastructure necessary to respond to a public health threat; the state's support for these functions has not kept pace with the need.

Governor's Budget

The Governor's budget of $1.5 million includes program changes that occurred during the 2001-03 biennium. The budget includes a loss of Other Fund revenue as a result of the re-direction of criminal fines and assessment account funds that would have been used for contract services ($250,000) and a phase in of Federal Fund grants that had begun during the 2001-03 biennium.

HS – Family Health Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	9,185,942	8,770,716	n/a	6,371,707
Other Funds	3,721,787	1,500,000	n/a	244,000
Federal Funds	54,812,876	57,453,350	n/a	74,679,079
Nonlimited	91,376,943	104,550,000	n/a	108,209,250
Total	**159,097,548**	**172,274,066**	n/a	**189,504,036**
FTE	0.00	0.00	0.00	0.00

Program Description

The Office of Family Health Services program area supports programs for individuals and families at risk because of age, income, or other factors. The Office is composed of six sections. The Women's and Reproductive Health section works to reduce unintended pregnancies, promote healthy birth outcomes, and increase awareness of women's health issues. The Child and Perinatal Health section promotes health and well being of pregnant women and children by providing a variety of primary preventative activities and health services. The Adolescent Health section focuses on teen pregnancy prevention, school-based health centers, nutrition, and adolescent mental health. The Immunization section works to prevent vaccine preventable diseases. The Nutrition and Health Screening section for Women, Infants, and Children (WIC) provides nutrition education, breast feeding information, and support including breast pumps, food vouchers, and referral services. The Oral Health section is designed to promote oral health awareness and education, and increase access statewide.

Revenue Sources and Relationships

The largest source of revenue is for the WIC program, which receives several grants totaling approximately $101 million and $28.6 million in Other Funds revenue through an infant formula rebate agreement. Expenditures from the federal WIC Food Grant ($79.6 million) and revenue from the infant formula rebate are not subject to expenditure limitation. The Office also receives federal funding through the Maternal and Child Health Block Grant ($6 million); Immunization Grant ($1.2 million); Title X Family Planning Grant ($3.1 million); and a variety of smaller federal grants. Additional Other Funds revenue includes a grant from the March of Dimes.

Budget Environment

The School-Based Health Center Program provides primary care and preventative health clinical services and mental health services for school age children and adolescents. Since 1993, the number of certified centers has tripled and the number of clients has grown from 11,837 to 25,193.

The Immunization program provides funds to local agencies to promote the core public health functions. The program links with local health departments to focus on the Vaccines for Children Program. The program assures compliance with School/Facility Immunization Law and Rules. Due to new vaccine requirements, the work load has doubled and is expected to continue to rise for several more years.

The Women's and Reproductive Health section provides payments to local agencies for support of family planning services. Grant payments are made to local health departments or other agencies providing clinical and community education services as delegate agencies under the State's Title X Family Planning Services grant. The Title X Family Planning Grant program has been in place for more than 30 years. It was originally anticipated that 66,500 clients would be enrolled in the program annually. The caseload, however, has grown beyond the original target due to strong participation by clients with incomes under 100% of the Federal Poverty Level but not enrolled in the Oregon Health Plan.

Governor's Budget

The Governor's budget of $189.5 million includes a reduction of $2.3 million General Funds based on special session actions during the interim. The reductions eliminated state funds for School Based Health Clinics and reduced prenatal/perinatal health programs.

The proposed budget also includes nearly $1.4 million Federal Funds to include full biennial financing for the Senior's Farmers Market and Title X funds for Planned Parenthood, $8.2 million Federal Funds to address caseload expansions within the Family Planning Expansion Program, and $771,137 General Fund for the Women, Infants and Children nutrition program.

HS – Disease Prevention and Epidemiology

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,434,552	2,327,226	n/a	2,327,226
Other Funds	9,237,096	15,027,523	n/a	8,363,215
Federal Funds	11,583,004	11,105,969	n/a	10,392,086
Total	**23,254,652**	**28,460,718**	n/a	**21,082,527**
FTE	0.00	0.00	0.00	0.00

Program Description

The Office for Disease Prevention and Epidemiology program area identifies and investigates disease outbreaks, hazardous exposures, and other health threats. The Office collects, analyzes, and distributes health-related information and implements public health programs to reduce the occurrence of acute and chronic disease. Programs include: Acute and Communicable Disease Prevention; Health Statistics and Vital Records; Health Promotion and Chronic Disease Prevention; and a program designed to reduce illnesses and death from sexually-transmitted diseases (STD), tuberculosis (TB), and human immunodeficiency virus (HIV). The Office also provides program design and evaluation services.

Revenue Sources and Relationships

Federal Funds revenue support approximately 49% of the program. Federal Funds come from the Centers for Disease Control for HIV/TB/STD ($5.7 million), breast and cervical cancer programs ($4 million), Emerging Infections program ($449,419), and a variety federal grants support targeted projects within each of the programs ($144,966).

During the 2001-03 biennium Other Funds revenue from tobacco taxes and a variety of fees and service charges supported nearly 40% of the Office's expenditures. The largest source ($7.4 million) was from tobacco taxes resulting from the passage of Ballot Measure 44 in 1996. Tobacco tax collections have continued to decline since the 1997-99 biennium. During the 2003-05 biennium, the Center expects to receive 29% of its total program revenue from Ballot Measure 44.

Budget Environment

Oregon's population growth continues to outpace the national average. Between 1990 and 2000, Oregon's population increased by 20.4 percent. As the population has grown, so has the demand for many of the Department's programs.

Tobacco usage has declined, resulting in a corresponding decline in tobacco tax revenues. Part of the decline in tobacco use is attributable to public health cessation and prevention programs, which are funded with tobacco tax revenues. In order for the cessation program to continue its effectiveness, a level of state support is required.

Governor's Budget

The Governor's budget of $21 million includes a $1.7 million General Fund reduction to the tobacco prevention and education program.

HS – Medical Assistance Programs: OHP Payments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	683,540,926	784,516,870	n/a	544,109,936
Other Funds	291,479,361	429,384,108	n/a	572,927,551
Federal Funds	1,485,810,596	1,795,771,765	n/a	1,700,743,111
Total	**2,460,830,883**	**3,009,672,743**	**n/a**	**2,817,780,598**
FTE	0.00	0.00	0.00	0.00

Program Description

The Oregon Health Plan (OHP) consists of five major program components. First, are Medicaid payments made to managed care organizations (both for somatic and mental health illnesses), hospitals, doctors, dentists, pharmacies, and other contractors to provide medical services to Medicaid eligible persons. The second program consists of payments made on behalf of persons who have extraordinary medical costs, are qualified Medicare beneficiaries, or women who are diagnosed with breast or cervical cancer through an early detection program offered through public health programs. The third component is the federal Title XXI Children's Health Insurance Program (CHIP), described below. The fourth part of the health plan is medical insurance premium subsidies offered through the Insurance Pool Governing Board's Family Health Insurance Assistance Program (FHIAP). Oregon also has a high risk insurance pool, administered by the Oregon Medical Insurance Pool Board in the Department of Consumer and Business Services, that provides medical coverage for persons unable to obtain medical insurance for health reasons.

As mentioned briefly above, OHP Medicaid payments are made to managed care organizations and, on a fee-for-service basis, to doctors, hospitals, pharmacies, dentists, and other contractors to provide medical services to nearly 440,000 Oregonians who are eligible for Medicaid. Nearly 75% of these persons are served through managed care organizations which receive capitation payments from DHS and who assume the risk of providing necessary medical services for their members. The remaining 25% are served on a fee-for-service basis.

Like all states' Medicaid programs, Oregon's health plan is regulated by the federal government. The plan operates under Medicaid waivers which allow it to differ from traditional Medicaid rules. Generally, most changes to the plan require some kind of federal approval (e.g. new waivers or state plan amendments) from the Centers for Medicare and Medicaid Services (CMS), formerly known as the Health Care Financing Administration (HCFA). This means that policy changes to the plan, particularly those that would have a significant program or budgetary impact, must pass muster with CMS. This approval process usually takes time. Moreover, reaching consensus about program changes prior to submitting a plan amendment or waiver is difficult because it involves numerous interested parties (e.g., advocates, managed care organizations, hospitals, physicians, pharmacists, pharmaceutical companies, and commercial insurers).

The 2001 Legislative Assembly passed HB 2519 which called for the development of a new OHP waiver. The new waivers, collectively known as OHP2, were developed by DHS under the advice and direction of a waiver advisory steering committee from August 2001 through May 2002. In addition, HB 2519 required approval of the waiver by a Leadership Commission on Health Care Costs and Trends and the Emergency Board. The OHP2 waiver was approved by CMS on October 15, 2002. The Medicaid portion of OHP2 will begin on February 1, 2003.

The OHP2 waiver had several goals. First, OHP2 was to generate General Fund savings by reducing the benefits for one group of OHP recipients and to use the savings to expand the number of persons who could be covered. Savings could also be used to reduce the overall OHP budget. Second, the OHP2 waiver gained federal approval to acquire federal matching revenue for the FHIAP program in the Insurance Pool Governing Board, thus expanding the number of persons who could receive subsidies for health insurance premiums. Third, OHP2 was to provide more immediate budget flexibility by allowing Oregon to reduce benefits for certain groups of eligible persons without acquiring CMS approval.

The OHP2 waiver differs from traditional Medicaid in major ways:

- *Eligibility* – the OHP2 waiver divided the Medicaid health plan population into two large groups. The first group is eligible for the health plan because they are eligible for other human services programs such as Temporary Assistance to Needy Families or Supplemental Security Income. These persons are "categorically" eligible and described below. The second group (single adults, couples, and parents of categorical children) is eligible because of a Medicaid waiver that allows them to be covered. Under traditional Medicaid, these persons would not have qualified for benefits even if they met income criteria. The second group is called "new eligibles."
- *Benefits* – Categorically eligible persons receive a benefit package known as "OHP Plus." The new eligible group receives a benefit package called "OHP Standard." OHP Plus includes hospital, physician, prescription drug, durable medical equipment, vision, dental, non-institutional mental health and drug and alcohol services, and transportation to medical providers with limited or no copayments. OHP Standard is a less costly benefit package and, as initially designed, excluded transportation, vision, and a portion of the dental services. In addition, Standard requires premium payments and copayments. The OHP2 waiver allows the Standard package to be reduced further (without CMS approval) by excluding all services except for those considered Medicaid minimums: hospital, physician, X-ray, and laboratory.

- *Services* – For the OHP Plus package, services are available based on a prioritized list of health conditions and treatments. Theoretically, the amount of funding available determines the services that are covered. The Health Services Commission, administered by the Office for Oregon Health Policy and Research in the Department of Administrative Services, determines the content and establishes the priority of listed services. In practice, however, excluding treatments from the bottom of the list has been difficult to do. Historically, HCFA allowed only modest rationing of services using this method. Under OHP2, CMS and Oregon's DHS were to develop a streamlined method for making reductions to the prioritized treatment list.
- *Service Delivery* – Most services are funded through a coordinated system of managed care plans, rather than the more traditional fee-for-service approach.
- *Payment* – Providers of health services under the OHP managed care plans are supposed to be reimbursed at reasonable cost rather than a percent of charges. Statutes creating the OHP mandate the payment of reasonable cost to encourage providers to participate in the Plan and to reduce cost shifting to other parts of the health delivery system. Services provided on a fee-for-service basis are paid at traditional Medicaid rates, which generally do not cover costs.

The following people are eligible for the OHP Plus benefit package:
- Persons receiving cash assistance under the Temporary Assistance to Needy Families (TANF) program.
- Families transitioning from TANF into employment, who are eligible for 12 months after cash assistance ends.
- Children in foster care or for whom adoption assistance payments are made.
- Persons in the Poverty Level Medical Program (PLM), which includes children from birth to age 5 in households with incomes up to 133% of the federal poverty level (FPL), children 6 to 18 in households with incomes up to 100% of FPL, and pregnant women and their newborns in households with incomes up to 185% of FPL.
- Persons who are age 65 or over who are eligible for SSI. In 2002, the SSI grant was about 81% of FPL or about $7,177 a year.
- Blind and disabled persons who are eligible for SSI.
- General Assistance recipients who are unable to work for at least 12 months, have no children, and have incomes and resources under $50. (The General Assistance program has been eliminated in the Governor's budget.)

Other Oregonians (new eligibles) with incomes under 100% of FPL who are not eligible for Medicare are eligible for the Standard benefit package. The OHP2 waiver allows the state to increase the income level for this group up to 185% of FPL, thus increasing the number of eligibles. However, the Legislative Assembly must approve the expansion before it can be implemented by DHS.

Institutional mental health and residential chemical dependency treatment are covered by Medicaid, but the expenditures for these programs are included below in the Mental Health and Addiction Services program. Policy and support staff costs for the OHP are included in the Health Services Program Support and Central Administration budget. Eligibility is determined by employees in the DHS Community Human Services cluster and Seniors and Persons with Disabilities Services cluster.

Revenue Sources and Relationships

The federal government funds approximately 60% of OHP Medicaid costs. Most of the state's 40% match comes from the General Fund and tobacco taxes. In 2001-03, $209 million in Tobacco Settlement funds are used to reduce the level of General Fund expenditures. The remaining state match comes from a variety of Other Funds revenue sources including OHP premiums; federally required drug manufacturer rebates; and recoupments from insurance companies, providers, and clients. Additional revenue comes from state agency and county transfers designed to maximize the receipt of federal matching funds, and from miscellaneous receipts. Because the Legislative Assembly bonded the next four years of Tobacco Settlement revenue, this source of revenue will not be available during the 2003-05 biennium.

Tobacco tax revenue for direct support of the OHP comes from 97 cents of the current per-pack state cigarette tax: 27 cents from Ballot Measure 44 passed in 1996, a 10-cent-per-pack temporary tax that was extended by the 2001 Legislature through January 2004, and a 60 cent-per-pack increase from Ballot Measure 20 passed in September 2002. In addition, the OHP receives revenue on other tobacco products which are taxed as a percentage of the wholesale price. Health Plan tobacco tax revenue is forecast at $379 million and assumes the 10 cent temporary tax will be extended by the 2003 Legislative Assembly. Within that amount, the Governor's budget uses $367 million for OHP payments and $12 million for CHIP payments.

The match rate from federal Medicaid funds varies annually because it is based on Oregon's population and economic condition compared to that of other states. Because Medicaid is an entitlement program, the General Fund or other state resources are used to backfill the loss of Medicaid revenue when the rate change is unfavorable to the state. Likewise, when the federal match rates become more favorable to Oregon, General Fund may be replaced with federal Medicaid revenue. The Governor's budget assumes a Medicaid match rate of 39.11% General Fund to 60.89% Federal Funds.

Budget Environment

Many factors affect the cost of the Oregon Health Plan, including population growth and aging; policies of other DHS divisions and state agencies; federal welfare and Medicaid laws; changing medical technologies and their costs; medical inflation; and the status of the economy. The following are significant factors affecting OHP costs.

Caseload Changes – The OHP budget is based on caseload forecasts and cost estimates that are projected for the coming two years. Because of the size of the OHP budget, even the slightest variance from the original forecast can result in a significant budget shortfall—or windfall. In collaboration with Willamette University, DHS has developed a new method of forecasting OHP caseloads that shows promise of being more accurate and providing better data for management planning. However, the new methodology because of its reliance upon recent historical data could not predict the significant upswing in caseload that resulted during the 2001-03 biennium from the economic recession.

Medical Inflation and Utilization Trends – Under federal Medicaid law and state statutes, DHS is responsible for paying rates that are sufficient to assure access to health care services for Medicaid recipients. With medical inflation it has become harder to pay providers of OHP services rates that will allow their continued participation in the program. Several OHP managed care providers have discontinued their contracts. Initially, this occurred in the rural parts of the state. More recently, the problem has spread to the population centers of Portland, Salem, and Eugene. The OMAP actuary established capitation rates for the 2003-05 biennium that are over 25% higher than for the original 2001-03 contract period. These cost increases are not unique to the health plan. Commercial insurers have also raised premiums significantly over the last two years.

Federal Policy and Funding Changes – Medicaid is a state-federal partnership of unequal partners. The federal share of administrative costs ranges from a low match rate of 50% for most functions to 90% for certain planning activities. Most program costs are matched at a rate of approximately 40% state to 60% federal funds. The federal government sets the rules and guidelines for the program and must approve any waivers and changes to waivers that are authorized for the state. Changing congressional priorities and federal funding levels greatly impact funding for OMAP programs.

Benefit Issues – As noted earlier, OHP Plus services are based on a prioritized list of medical conditions, treatments, and procedures. The extent to which the conditions on the list are covered depends on the amount of funding available. In theory, as well as legislative intent, the OHP budget would be balanced and funding decisions made based on the list of prioritized services and available funds. In practice, however, the federal government has allowed very little flexibility in removing services from coverage. Because of this, OMAP and the Legislature have looked to alternative methods of budgetary control, such as eliminating specific eligible groups, finding greater efficiencies in delivering care, changing the effective date of eligibility, and attempting to control medical costs through managed care.

Like all DHS program budgets, the 2001-03 OHP payments budget changed significantly over the course of the biennium. Special session and Emergency Board actions both added and reduced the General Fund budget. Nearly all of these actions have an impact upon the Governor's budget.

Most notably, the Legislative Assembly in the third special session replaced over $150 million of General Fund with Tobacco Settlement revenue ($85 million) and Tobacco Tax revenue ($68.5 million). As noted earlier, total 2001-03 Tobacco Settlement revenue in the health plan is $209 million. Tobacco Settlement revenue is not available for the 2003-05 biennium because it will be used to pay for bonds that were issued to manage the state's budget deficit. The OHP budget increased throughout the biennium (through the DHS rebalance plans) as a result of caseload increases and lower than expected managed care enrollment. For the purposes of the budget, when managed care enrollment does not meet expectations, fee-for-service costs increase at a greater level than budgeted managed care costs decrease. Other significant Emergency Board actions included approval of OHP 2 budget changes, increasing General Fund to compensate for delays in prescription drug management actions, eliminating OHP Standard dental, alcohol treatment and mental health benefits, delaying expansion of the OHP Standard package, and reducing what will be the OHP Plus benefit package by eight treatment pairings.

HB 5100 from the fifth special session reduced the OHP payments budget as did the allotment reductions associated with a lower December 2002 forecast of General Fund. The reductions included elimination of a special purpose appropriation for safety net clinics, elimination of the prescription drug benefit for OHP Standard clients, cutting reimbursement to pharmacies and hospitals, and the elimination of medical coverage for those long-term care clients who, under reductions in the SPDS cluster budget, will no longer receive long-term care services.

Governor's Budget

The Governor's budget assumes that all of the reductions generated in response to HB 5100 will be carried forward into the 2001-03 biennium. In addition, the Governor's budget eliminates all inflationary increases on fee-for-service and capitation rates as well as capitation rate increases resulting from higher utilization. By eliminating inflationary and utilization increases, the Governor's budget lowers health plan costs by $849 million Total Funds ($332 million General Fund).

The Governor's budget eliminates adult dental for OHP Plus beneficiaries saving $58 million Total Funds ($23 million General Fund). It assumes implementation of a broader prior authorization mechanism for all prescription drugs including pharmaceuticals used to treat mental disorders. This would save an estimated $30 million Total Funds ($12 million General Fund). Finally, the budget includes a policy change that would require OHP pharmacies to assume the risk for 3rd party payments. Under current practice, DHS pays OHP pharmacies and then pursues 3rd party payers for reimbursement to the health plan. DHS efforts to recover reimbursement have not been entirely successful. The Governor's budget assumes Total Funds savings of $24 million ($10 million General Fund) by shifting 3rd party recovery risk to OHP pharmacies.

In LFO's estimation, a policy to eliminate inflationary and utilization increases is problematic. Health care costs are rising significantly. If capitation rates are not increased to some extent, LFO believes that most managed care organizations will leave the health plan and providers will be paid on a fee-for-service basis. However, the lack of fee-for-service rate increases may also force these providers to turn down OHP clients. In other words, this policy would probably create significant access problems—a client could be eligible for Medicaid services and on the OHP caseload, but not be able to find a provider who would accept him or her as a patient.

The Governor's budget does underscore the significant challenge of containing health care cost increases. It also serves the purpose of initiating conversation about the goals, structure, and policy of the health plan in the context of the state's current budgetary crisis. As a bona fide policy choice, however, it has serious limitations.

HS – Medical Assistance Programs: Non-OHP Payments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	58,408,076	86,840,630	n/a	46,042,442
Other Funds	3,357,876	2,195,465	n/a	7,116,483
Federal Funds	89,862,846	104,400,926	n/a	63,443,663
Total	**151,628,798**	**193,437,021**	**n/a**	**116,602,588**
FTE	0.00	0.00	0.00	0.00

Program Description

The OMAP budget covers medical services that are not part of the Oregon Health Plan Medicaid expansion. Services are provided to the following eligibility groups:

- The *Medically Needy Oregon Supplemental Income Program (MN-OSIP)* provides reimbursement for prescription drugs and other medical costs not covered by Medicare for OSIP clients whose incomes are 133% of the standard for cash assistance to needy families or who have high medical expenses that reduce their incomes to that level. This program is eliminated as part of HB 5100 reductions and in the Governor's budget.
- *Qualified Medicare Beneficiaries (QMBs) and Special Low Income Medicare Beneficiaries (SLMBs*) are individuals who currently receive Part A Medicare coverage (hospital coverage) and have incomes up to 100% of the Federal Poverty Level (FPL) and 120% of the FPL respectively. For QMBs, OMAP pays the Medicare Part B (physician coverage) premium and any applicable coinsurance or deductible that is not paid by Medicare. For SLMBs, only Medicare Part B premiums are covered.
- *Persons qualifying for the Breast and Cervical Cancer Prevention and Treatment Program.* Under this new Medicaid option, women who are found through the Public Health Programs screening system to have breast or cervical cancer are eligible for Medicaid services if they are under age 65 and otherwise uninsured. To be eligible for Public Health Program screenings, women must be over 40, uninsured or under-insured, ineligible for Medicare Part B, and have incomes below 250% of the federal poverty level. The federal Breast and Cervical Cancer Prevention and Treatment Act was signed into law in October 2000. The 2001 Legislative Assembly provided funding in House Bill 3214 to implement the program in Oregon.
- *Children qualifying for mental health and alcohol and drug treatment services under the Oregon Children's Plan.* Children needing the services would be identified through the Healthy Start/home visitation programs or other early identification activities of the Oregon Children's Plan, which was approved by the 2001 Legislative Assembly. The purpose is to assure access to these services when private insurance or other public services are not available.

Revenue Sources and Relationships

The General Fund appropriation and Other Funds revenue from drug rebates for the MN-OSIP, QMB, and SLMB programs are used to match federal Title XIX Medicaid funds at the rate of approximately 60% federal to 40% state funds.

Budget Environment

Due primarily to the increasing population of elderly persons and their relatively high usage of prescription drugs, non-OHP caseloads and costs continue to grow much faster than the normal rate of inflation. The average number of clients served each month has increased steadily during the past three biennia. In addition to caseload increases, costs are affected by changes in federal match rates and Medicare policies, especially the rapidly increasing cost of prescription drugs.

Governor's Budget

As noted earlier, the Medically Needy program is eliminated as one of the HB 5100 reductions and is not reinstated in the Governor's budget. The 2003-05 cost of the Medically Needy program within the Health Services budget is approximately $37 million General Fund. In addition, the Governor's budget removes inflationary adjustments.

HS – Medical Assistance Programs: CHIP Payments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	63,800	0	n/a	0
Other Funds	8,576,478	10,736,944	n/a	12,019,740
Federal Funds	22,217,882	26,543,300	n/a	31,077,211
Total	**30,858,160**	**37,280,244**	**n/a**	**43,096,951**
FTE	0.00	0.00	0.00	0.00

Program Description

CHIP is a relatively new federal (Title XXI) program designed to improve the health of children by increasing their access to health care services. Oregon's CHIP program received federal approval in March 1998, and the program was implemented in July 1998. It continues through the year 2005.

Oregon's plan takes advantage of the more favorable federal CHIP match rate (approximately 72% for CHIP versus 60% for Medicaid) to expand OHP services to more children than would have been covered if the funds were coming from Medicaid. Persons eligible for CHIP benefits receive the same application form, benefit package, and selection of health plans as the rest of the OHP population. In addition, CHIP eligibles may receive chemical dependency services in an intensive residential setting. To qualify for CHIP, children must be ineligible for OHP-Medicaid benefits and have been uninsured, except for Medicaid, for six months prior to application. In addition, the children must be living in households with incomes between 100% and 185% FPL.

Revenue Sources and Relationships

Tobacco tax revenue has been used to match federal CHIP funds on approximately a 28% state to 72% federal basis. Because of the OHP2 waiver, federal CHIP revenue is now able to be used in the Insurance Pool Governing Board's Family Health Insurance Assistance Program, a program which subsidizes the purchase of commercial medical insurance for lower income Oregonians.

Budget Environment

Prior to 1997, the OHP covered children through age five and up to 133% of the federal poverty level. Using Measure 44 tobacco taxes as the state match, the 1997 Legislative Assembly expanded coverage to children through the age of 11 and up to 170% of the poverty level. Subsequently, when CHIP money became available, funding for the federal portion of this expansion was switched from Medicaid to CHIP. The additional federal dollars resulting from the higher match rate allowed further expansion without increasing the state's matching funds. This made it possible to cover children through age 18 and up to 170% of the poverty level.

The budget considerations facing the OHP-Medicaid program also apply to the CHIP program with one significant exception. Unlike Medicaid, CHIP is not an entitlement program, so the number of children who can be served is capped based on the amount of funding available and the cost of benefits.

Governor's Budget

The Governor's budget does not make any programmatic reductions to CHIP by reducing eligibility or benefits. However, the Governor's budget does eliminate funding for medical inflation.

HS – Mental Health and Addiction Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	232,123,451	252,902,485	n/a	290,296,506
Lottery Funds	4,552,012	5,574,140	n/a	6,689,823
Other Funds	55,283,854	61,646,423	n/a	44,748,687
Federal Funds	144,967,693	130,545,711	n/a	129,008,507
Total	**436,927,010**	**450,668,759**	n/a	**470,743,523**
FTE	1214.42	1318.03	n/a	1321.79

Program Description

Mental health services are provided to people who have been clinically diagnosed as having a serious mental or emotional disorder. Illnesses include schizophrenia, bipolar disorder, and major depression. Diagnosed individuals typically have a normal to high measured intelligence, but people with low intelligence (developmentally disabled) also may have a mental illness. Medicaid-eligible persons receive mental health diagnoses and treatment under the Oregon Health Plan. Mental health organizations receive capitation payments and manage much of the risk of providing treatment for OHP eligible persons with mental disorders. OHP mental health and addiction service capitation and some fee-for-service payments are included in the OHP payments budget category discussed above.

The mental health and addiction services program is comprised of three main cost centers: community mental health, alcohol and drug treatment and prevention, and the Oregon State Hospital and Eastern Oregon Psychiatric Center.

Community Mental Health

Mental health community services are provided through county and other local governments, private non-profit organizations, private hospitals, and health plans. Community mental health programs operate in every county of the state, and counties are statutorily required to provide pre-commitment services. For individuals and services not covered under the OHP, DHS funds a variety of services that include supported housing and employment opportunities; clinic-based outpatient care; local crisis services; regional acute care facilities; and, as a last resort, referral to state psychiatric hospitals. The Governor's budget provides funding for about 461 outpatient slots and 1,700 residential treatment beds.

Alcohol and Drug Treatment and Prevention

Like community mental health services, alcohol and drug treatment services are also offered through county and other local governments and private non-profit organizations. The budget funds 384 beds for residential alcohol and drug treatment for adults and another 68 beds for children aged 15-17. In addition, the budget supports 53 beds for the dependent children of adults receiving residential treatment services. Another 11,782 outpatient slots (non-residential) are also funded in the Governor's budget. The budget includes $6.7 million of Lottery Funds to prevent and treat gambling addictions.

Oregon State Hospital and Eastern Oregon Psychiatric Center

The state operates institutional facilities in Salem, Portland, and Pendleton for patients who have a severe mental illness. The Oregon State Hospital (OSH) provides psychiatric evaluation and diagnosis, as well as intermediate and long-term inpatient care. Oregon State Hospital - Salem includes 48 buildings on a 148-acre campus. One-third of the space was constructed between 1883 and 1912. The newest building was built in 1955. Oregon State Hospital - Portland is in leased space near the Lloyd Center. The 2003-05 budget includes funding for 751 beds within the Oregon State Hospital:

- adult treatment services are provided in two wards on the Salem campus and three wards at Portland for 133 mentally ill patients who have been civilly committed. That is, they have been found by a court to be potentially dangerous to themselves or to others. They have not, however, been convicted of a criminal offense.
- psychiatric services for elderly and adolenscent persons include 154 beds.
- forensic services are provided to 464 person. The programs provide evaluation and treatment, residential, and transition services. These persons are released through a judicial process involving the Psychiatric Security Review Board.

The Eastern Oregon Psychiatric Center (EOPC) in Pendleton serves 60 adult general psychiatric patients at any one time, including 10 regional acute psychiatric care beds. The Governor's budget for mental health and addiction services includes funding for 1,321.79 FTE who staff the Oregon State Hospital and Eastern Oregon Psychiatric Center.

Revenue Sources and Relationships

Funding for mental health and alcohol and drug treatment programs is about 62% General Fund, 11% Other Funds, and 27% Federal Funds. Most of the federal funding ($88.5 million of the $129.0 million) comes from Title XIX Medicaid, which supports institutional care for some children and elderly patients and community mental health services. The Title XIX federal match rate is about 60% for program services and 50% for administration. The match rate is based on the economy of the state compared to the nation as a whole. In addition to Title XIX Medicaid funding described above, the federal Alcohol and Drug and Mental Health Services Block Grant provides $38.2 million for adult community support services and for local services for severely emotionally disturbed children and adolescents.

Other Funds revenues are also received from patient resources, beer and wine tax receipts, Lottery Funds for prevention and treatment of gambling addictions, and earnings for patient work. Patient resources include Social Security benefits and private insurance, as well as personal assets. About $1.9 million will be received from Medicare for eligible patients who receive care in institutions. The Salem Rehabilitation Facility at Oregon State Hospital, which provides work training, generates about $2.1 million each biennium through the sale of wood products.

Budget Environment

The most significant driver for the mental health treatment budget is whether appropriate "least restrictive" therapy can be delivered in a timely manner. Inadequate treatment which does not stabilize a person in the face of mental illness is costly and wasteful because the person may recycle through the therapeutic system repeatedly. On the other hand, keeping a person with mental illness in an institutional setting for too long and delaying his or her return to the community is also costly and inefficient. Because mental illness and mental health are on a continuum, effective mental health treatment requires a range of therapeutic interventions and clinicians who can assess which intervention to employ. This understanding of mental illness and effective treatment regimes has and will continue to have budget implications.

For example, over time, the state has shifted significant resources from large, state-owned institutional settings to local, community-based care and treatment for mental health services. In fiscal year 1999-2000, 75% of the funding for mental health services was spent through community programs, compared to 37% spent through community programs in the 1987-88 fiscal year. This reflects the closure of Dammasch State Hospital in 1995 and downsizing at Oregon State Hospital in favor of alternative community services. New community acute care beds, intensive community and residential programs, and extended care community placements for persons under the jurisdiction of the Psychiatric Security Review Board have been funded.

Population growth, legal rulings, and federal policies concerning treatment and funding are other factors that significantly affect this budget. Funding for mental health services has not been tied directly to Oregon's growing population; however, population growth means more persons are expected to need mental health services. Recent court rulings across the nation, most notably the Olmstead case, have supported the rights of individuals to receive timely services in the least restrictive and most appropriate setting. Community-based services are most limited for persons who are not covered by the Oregon Health Plan.

Recent advances in drug treatment have improved the lives of many people with mental illness. As a result, the long-term need for institutional beds has declined and the need for community-based alternatives has increased. The number of people with identified mental health needs, however, has been increasing at a rate even greater than the increase in the general population. For example, from 1997-98 to 1999-2000 there was a 38% increase in the number of adults identified as needing long-term care. Many mental health services cannot be fully funded under the Medicaid program, including residential room and board, supported employment services, case management, pre-commitment services, and housing development. Also, many people who need mental health services are not eligible for Medicaid, even under the OHP expansion.

The system of intermediate and long-term care for mentally ill people is at or above capacity. As Oregon's population increases, more people with severe mental illness will likely require extended treatment. When appropriate care beds are not available, placements may occur that are inappropriate from both economic and treatment perspectives. Long-term growth in this area is expected.

Oregon State Hospital has gone from a peak population of over 5,000 persons in the 1950's to its current projected population during the 2003-05 biennium of 811 residents. In the process, the role of the hospital has changed from a focus on custody and care to providing active specialized psychiatric treatment. Admission to one of the state's psychiatric hospitals is now limited to patients who are too dangerous to themselves or others to be treated in community-based programs.

The state is required to serve persons who are civilly or criminally committed for treatment or are assigned by the court for evaluation of fitness to proceed. In fiscal year 1990-91, there were about 2,000 involuntary admissions to state and local acute care hospitals (excluding criminal court commitments). By fiscal year 1999-2000, an estimated 3,037 individuals were admitted to local acute care facilities, a 52% increase in the number of involuntary admissions in 1990-91. The forensics population at Oregon State Hospital has increased from 328 in 1996 to a forecast of over 450 during the upcoming biennium.

Governor's Budget

The Governor's budget for mental health and addiction services programs is $470.7 million Total Funds ($290.3 million General Fund). The Governor's budget assumes that all reductions made during the 2001-03 biennium in response to HB 5100 were continued into the 2003-05 biennium. These reductions amount to nearly $48.8 million in the 2003-05 biennium. HB 5100 reductions include cutting the number of alcohol and drug treatment beds by 115 ($4.2 million GF), the reduction of community mental health crisis services ($11.5 million GF), the elimination of community mental health services for non-Medicaid adults ($9.2 million GF), and the elimination of 132 non-Medicaid and 32 Medicaid psychiatric day treatment (DARTS) slots ($8.9 million GF). The Governor's budget does not include inflationary adjustments for anticipated program cost increases.

HS – Program Support and Central Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	42,149,923	10,449,703	n/a	53,820,995
Lottery Fund	0	1,571,338	n/a	0
Other Funds	53,568,433	53,802,208	n/a	78,449,615
Federal Funds	96,700,163	150,910,331	n/a	181,547,381
Total	**193,341,357**	**216,733,580**	n/a	**314,006,714**
FTE	750.28	798.17	n/a	872.21

Program Description

This budget unit includes staffing to manage and administer the programs included in the health cluster: public health, the Oregon health plan, and mental health and addiction services. The public health program area includes staff (568 FTE) who serve in the offices of health planning and community relations, public health systems, family health, and disease prevention and epidemiology. These staff members respond to disasters, diagnose and investigate health problems, inform, educate, and enforce laws and regulations that protect health and ensure safety. Staff within the office of mental health and addiction services (123 FTE) develop policy and oversee mental health organization programs throughout the state. The Office of Medical Assistance Program staff (174 FTE) manage the areas of Program and Policy, Health Financing Operations, and administration. The program and policy section is responsible for the day-to-day operation of the medical assistance plans. The Section ensures that programs operate within state and federal laws, monitors program utilization, and writes and distributes all rules and provider guide materials. The health financing operations section maintains the integrity of the Medicaid Management Information System (MMIS) and the automated claims payment and reporting system for the Medicaid program. The budget includes 7 FTE for the upper management of the Health Services Cluster.

Revenue Sources and Relationships

Other Funds constitute 25% of the program support and central administration budget for the health services cluster. Significant Other Funds revenue sources include health statistics fees, food services licensing fees, newborn screening fees, tobacco taxes, and public health systems fees.

Federal Funds which comprise 58% of the Governor's budget come from a wide variety of sources—many associated with smaller public health related grants. In addition, Federal Funds revenue includes AIDS prevention, Alcohol and Drug and Mental Health Block Grant, Center for Disease Control grant, the Environmental Protection Agency state revolving fund, the Maternal and Child Health Block Grant, Medicaid, and Women, Infants, and Children program funding.

Governor's Budget

The Governor's budget reflects 2001-03 Emergency Board actions that transferred a number of management support positions that heretofore were in program areas into the Department Wide Support Services program area. The budget rolls up 34.25 FTE within the public health area that were added during the 2001-03 biennium as part of a departmental rebalance. The positions are predominately federally funded. Further, the Governor's budget includes five policy packages funded through fee increases that add 38.33 FTE to meet increased demand for public health services. The five policy packages add no General Fund, $4.6 million Other Funds, and $2.3 million Federal Funds.

HS – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,134,944	1,163,318	n/a	1,163,318
Total	**1,134,944**	**1,163,318**	n/a	**1,163,318**
FTE	0.00	0.00	0.00	0.00

Program Description

The capital improvements budget sets aside $1.2 million of General Fund for emergency repairs for the Oregon State Hospital and Eastern Oregon Psychiatric Center. The campuses include 100 buildings, some over 100 years old, and a total of 1.4 million square feet. There are roads, sidewalks, parking areas, water and sewer systems, and heating and electrical systems.

Budget Environment

Over time, the budget has not reflected the real costs of operating and maintaining these facilities. As a result, a number of the older building cannot be used because of their poor condition. Any proposal for facility renovation or replacement will have significant costs. The $1.2 million budget is used to address only the most critical needs. It is clearly not enough to undertake major renovation projects.

Throughout the 2001-03 biennium, the Department of Administrative Services worked to sell both the Fairview Training Center (in Salem) and former Dammasch State Hospital (in Wilsonville). Sale proceeds are earmarked by statute to flow into trust funds to support services for mentally ill and developmentally disabled persons.

Governor's Budget

The Governor's budget continues the 2001-03 level of funding at $1.2 million.

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

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	728,097,069	887,725,144	932,554,123	734,450,695
Other Funds	131,769,905	126,918,770	161,962,386	156,702,469
Federal Funds	1,076,752,451	1,155,854,419	1,352,094,832	1,200,846,365
Total	**1,936,619,425**	**2,170,498,333**	**2,446,611,341**	**2,091,999,529**
FTE	1,729.47	1,745.85	1,626.02	1,588.19

The FTE position count does not include the non-state employees in the Area Agencies on Aging (AAA) for which DHS provides funding. The Governor's budget supports approximately 800 FTE AAA positions.

Summary Description

The Seniors and Persons with Disabilities (SPDS) Cluster was created in the Department of Human Services' (DHS) reorganization by bringing together portions of three DHS programs—Senior and Disabled Services, Development Disability Services, and the Vocational Rehabilitation Services programs. SPDS now includes Medicaid long-term care services for seniors and persons with all types of disabilities including developmental disabilities. Long-term care services range from those provided in nursing facilities and medically intensive group homes to supportive in-home care. The long-term care services are structured under various Medicaid waivers and administrative rules.

In addition to long-term care funding, the SPDS cluster includes Older Americans Act funding which is distributed to the state's Area Agencies on Aging (AAA), state required payments to Supplemental Security Income (SSI) recipients, the General Assistance program and several smaller programs to enhance the employment opportunities for persons with disabilities. The cluster's budget also contains funding for AAA Medicaid field staff, and Federal Funds for the disability determination services unit—case workers who determine eligibility for SSI and Social Security Disability Insurance benefits. The Medicaid budget for multi-service and disability services office supplies and staff, previously in the seniors program, is now contained in the DHS Community Human Services (CHS) Cluster.

Revenue Sources and Relationships

Aside from General Fund, the most significant revenue source is federal Medicaid funds. Oregon matches Medicaid program revenue at about 40% state funds and 60% Federal Funds. Medicaid administrative functions are matched 50/50. Other Funds revenue comes primarily from client contributions, estate recoveries, SSI reimbursement, and General Fund that has been returned to DHS through the Medicaid Upper Payment Limit (MUPL) mechanism. This mechanism is described in more detail below.

Budget Environment

Arguably, the most significant development in the delivery of human services to seniors and persons with disabilities over the last 25 years has been the shift away from institutional care to community-based care. For Medicaid eligible seniors and persons with disabilities in Oregon this has meant that the provision of long-term care has, in large measure, shifted away from nursing facilities and training centers and to in-home care, assisted living facilities, adult foster homes, and group homes. For example, the major state institution for developmentally disabled persons, the Fairview Training Center, closed in February 2000. This was part of a long-term plan to develop community placements and supports for its residents, improve wages for direct care staff in community homes, and expand community-based services for other developmentally disabled persons. Services for persons with developmental disabilities are now delivered almost exclusively through regional and local partnerships, with the Eastern Oregon Training Center as the only state institution for the developmentally disabled.

Another signficant budget driver for the senior Medicaid caseload is growth in the elderly population (primarily over 85 years of age). The state's population over 85 years of age is expected to grow about 7% from the 2001-03 biennium to the 2003-05 biennium. This growth rate is faster than that of the general population of Oregon, which is expected to grow about 2.3% during the same time period. In addition, because Oregon's population overall is aging as baby-boomers grow older, the prevalence of disabled persons is also increasing.

A third important budget driver for the senior program area is the breadth of services it provides. Many program advocates assert that the evolution of community-based care in Oregon has saved money and allowed better care for more elderly and persons with disabilities. There is little doubt that the emphasis on community-based long-term care has provided better care for more seniors and persons with disabilities. Actual savings for state government are more difficult to evaluate. Some observers believe that savings have primarily accrued to the federal government because long-term care services have prevented or delayed expensive hospitalization that is paid for by Medicare—an entirely federally funded program. As a consequence, the federal government has effectively shifted the acute costs of caring for economically poor seniors to state government. Other analysts argue that Medicaid costs (40% paid by Oregon state funds) have also been lower because less expensive long-term care options have prevented or delayed expensive nursing facility use. In any case, the senior long-term care budget is expected to come under increasing pressure as the population ages and more persons seek care. Control of Medicaid long-term care expenses through incentives to purchase long-term care insurance, cost containment mechanisms, or service reductions will be a major issue for the federal and state governments as the 21st century progresses.

Population growth and legal rulings concerning services are other factors that significantly affect this budget. Resources have not been tied directly to Oregon's growing population, although population growth means more persons are likely to need developmental disability (DD) services. DD services have historically not been provided on an entitlement basis. However, recent court rulings across the nation have supported individuals seeking access to state services. Oregon's settlement of the *Staley v. Kitzhaber* case phases in universal access to developmental disability services, with an initial cost estimate of $350 million total funds for the six-year plan. The 2001-03 incremental cost to implement the settlement agreement was about $42 million General Fund. In light of the state budget situation, the Agreement is being renegotiated in April 2003. The 2003-05 additional cost to implement the agreement is not yet known.

Of the 2001-03 budget, nearly $400 million ($160 million of General Fund and $240 million of Federal Funds expenditure limitation) allowed for the implementation of a plan to convert federal Medicaid funds to state funds. This plan, known as the Medicaid Upper Payment Limit (MUPL) plan was expected to generate approximately $233 million of additional state resources during the 2001-03 biennium. Coupled with a beginning balance of $113 million of MUPL revenue, generated in the previous biennium, Oregon expected to spend about $346 million of MUPL revenue during the 2001-03 biennium. MUPL will continue during the 2003-05 biennium, generating an estimated $73.8 million and is described below.

The MUPL plan requires DHS to make a special payment consisting of General Fund and Federal Funds to nine public health districts that operate nursing facilities. The size of the payment is based upon the difference between the Medicare Upper Limit (maximum Medicare rate levels for nursing facility clients) and Oregon's Medicaid rate for nursing facilities as well as the total number of Medicaid nursing facility beds in the state. The health districts then transfer most of the payment they receive back to the Department of Human Services. The General Fund portion of the original payment returned from the health districts is spent within DHS as Other Funds. The Federal Funds portion of the original payment is known as MUPL revenue and may be used for other purposes. In the 2001-03 biennium, MUPL revenue of $346 million was budgeted to be used primarily in the Kindergarten through 12th grade education budget ($249.5 million) and the Oregon Health and Science University budget ($93.2 million). As of April 2003, analysts expected the 2001-03 MUPL revenue to be about $222 million—about $11 million less than expected earlier in the biennium. How that $11 million shortfall will be allocated has not yet been determined.

The MUPL plan is consistent with Medicaid law, and DHS sought and obtained a Medicaid plan amendment in 1999 from the Health Care Financing Administration (HCFA—now called CMS or the Centers for Medicare and Medicaid Services) before implementing the plan. About the same time, many other states submitted MUPL plan amendments to the federal government. Alarmed at the impact of these proposed plans upon the federal Medicaid budget, HCFA implemented rule changes that would almost entirely phase the program out. Thus, expected MUPL revenue for the 2003-05 biennium of $73.8 million is significantly less than the 2001-03 revenue. MUPL revenue is expected to be about $3 million to $4 million in the 2005-07 biennium.

The state's budget shortfall led to a number of significant program reductions that are described in more detail below. The reductions included administrative cuts, the elimination of cost of living adjustments for several provider groups, as well as major cuts to long-term care services in response to HB 5100, adopted during the fifth special session.

Governor's Budget

The Governor's budget continues the initial list of reductions compiled by the agency in response to HB 5100. The reductions primarily affect the long-term care program and related staffing in the program support area, although one significant reduction eliminates the General Assistance program which is in the direct financial support program budget. The 2003-05 budget reflects nearly $150 million of HB 5100 reductions carried forward to the next biennium. The reductions contained in the Governor's 2003-05 budget in response to HB 5100, however, do not reflect those program changes that were actually made. The Governor's budget was developed before the program reductions were finally implemented. After the Governor's balanced budget was finalized, the Department developed a new list of reductions in the Seniors and People with Disabilities program area. In general, the initial list of reductions made greater cuts to services—the latter list made more significant cuts to provider reimbursement.

The Governor's budget does not contain roll-up of those reductions made through the allotment process in December 2002 in response to the projected statewide budget shortfall. The Legislative Assembly may want to review these reductions, however, because some of them may be less harmful to the long-term care system than those which were included in the Governor's budget. Nor does the Governor's budget include any roll-up of 2001-03 add-backs made by the Legislative Assembly in SB 5548 early in the 2003 session.

In addition to the HB 5100 reduction roll-up, the Governor's budget does not include a $30 million General Fund inflationary adjustment for any program service costs. Thus, provider reimbursement amounts in the Governor's 2003-05 budget are significantly lower than they were during the 2001-03 biennium, by virtue of the HB 5100 reductions.

SPDs – Long-Term Care

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	645,455,707	802,129,687	n/a	643,113,851
Other Funds	66,722,673	69,956,787	n/a	123,716,088
Federal Funds	896,972,590	984,342,156	n/a	1,007,750,370
Total	**1,609,150,970**	**1,856,428,630**	**n/a**	**1,774,580,309**
FTE	846.75	937.00	n/a	862.58

Program Description

This program area includes payments to a variety of long-term care facilities and service providers for seniors and persons with disabilities. These facilities and providers include nursing facilities, assisted living facilities, residential care facilities, adult foster homes, in-home providers including those funding through Oregon Project Independence, group homes (both state and private) for persons with developmental disabilities, the Eastern Oregon Training Center, and support service brokerages for persons with developmental disabilities. Until the reorganization of DHS during the 2001-03 biennium, long-term care services for seniors and persons with non-developmental disabilities were funded separately from long-term care services for persons with developmental disabilities. The Department of Human Services' reorganization brought these two service systems together in the SPDS cluster.

Services for Seniors and Non-developmentally Disabled Persons

Medicaid Long-Term Care services for elderly and disabled clients fall into one of three major delivery categories—community-based facilities, nursing facilities, and in-home programs designed to delay the need for more costly institutionalized care. Community-based facilities include adult foster care homes, assisted living, residential care, enhanced residential care, and specialized living facilities. Nursing facilities provide comprehensive care for persons who require 24-hour skilled nursing care in addition to assistance with activities of daily living. Providence Elderplace, a jointly funded Medicare and Medicaid program that integrates acute medical care and community-based care, is targeted at persons at high risk of needing nursing facility care.

Oregon's current system of long-term care for seniors and persons with non-developmental disabilities is significantly different than it was twenty-five years ago. Like many other states, Oregon had numerous nursing facilities, but relatively few community-based care options. The Health Care Financing Administration (now called the Centers for Medicare and Medicaid Service or CMS) granted a community-based care waiver to Oregon in 1981. This waiver allowed individuals who would otherwise qualify for nursing home admission to Instead opt for home and community-based facility care. By the mid-1980s Medicaid long-term caseloads were about evenly divided between community-based care and nursing facilities. Today, community-based care comprises better than 80% of the long-term care caseload. Medicaid nursing facility caseloads have declined from 8,400 in 1981 to approximately 4,800 average cases during the 2003-05 biennium. During the same time, home and community-based care caseloads increased from 3,000 cases to about 30,000 average cases during the upcoming biennium. The average cost per case in home and community-based care is much less than the average nursing facility case. For example, SPDS estimates an average nursing facility cost per case of nearly $3,000/month during the 2003-05 biennium. In contrast, an assisted living case is expected to cost about $1,500/month. The nursing facility Medicaid rate includes the cost of room and board, but the community-based facility rates do not—the community-based Medicaid rates cover only Medicaid services. Clients use their own resources (e.g., Supplemental Security Income) to pay for room and board in community-based facilities such as assisted living facilities or adult foster homes.

SPDS has 17 categories of client impairment known as "survival priority levels." The categories are based upon the need for assistance with activities of daily living such as eating, toileting, mobility, bathing and dressing. Priority Level 1 clients are the most impaired and more likely to receive care in nursing facilities. Those at Priority Level 17 are the least impaired and are likely to receive in-home assistance. Eligibility is based upon impairment and income level. All must be impaired enough to require the services of a nursing facility and must have incomes below 300% of the Supplemental Security Income (SSI) grant or about $1,635 each month, or 222% of the federal poverty level for a one-person household. Most clients have chronic health conditions such as arthritis, diabetes, cancer, stroke, hypertension, or heart disease.

The rates SPDS pays nursing facilities for services are based on audited financial cost data submitted during the fall prior to a legislative session. During the second year of the biennium, rates are increased using a specific nursing home cost index. This practice of basing nursing facility rates upon costs is known as "rebasing." Assisted Living rates were initially set in 1990 at 80% of the nursing home rate and adjusted over the years using cost indexes. Other community-based provider rates such as those for adult foster homes and residential care facilities are tiered (based upon client impairment) and have been adjusted over time using cost indexes.

Services for Persons with Developmental Disabilities

Oregon provides services for persons with developmental disabilities with a measured IQ of 70 or lower. Developmental disabilities (DD) include mental retardation, cerebral palsy, Down's syndrome, autism, and other impairments of the brain that occur during childhood. In some instances, persons with developmental disabilities also have significant medical or mental health needs. People are eligible for services, however, based on the DD diagnosis. Services are provided through contracts for community vocational programs, in-home support, and other services throughout the state, community-based residential group homes—both privately and state operated, and the Eastern Oregon Training Center in Pendleton.

Community services for developmentally disabled persons are the predominant share of total state Developmental Disability (DD) expenditures. Services include case management, residential care, vocational and employment services, family support, and crisis/diversion. The state contracts with county governments, which in turn generally sub-contract with non-profit organizations for direct delivery of services. Community residential services range from once-a-week monitoring to daily, 24-hour supervision and care. Services are delivered in group homes, foster homes, and through supported living in conventional housing. Vocational services include out-of-home training, employment, and support in community-based centers, workshops, and private business settings. County case managers and brokerages are the main points of entry for services.

Community residential services are provided to about 5,000 clients; 97% of these clients are served in private placements, such as group or foster homes. The remaining 142 clients live in 33 state-operated group homes for individuals who are difficult to place in regular community programs. These clients have severe medical and behavioral disabilities and are dependent upon specially trained staff for the delivery of services. The state group homes are located in Clackamas, Lane, Linn, Marion, Multnomah, Polk, Washington, and Yamhill counties and use state employees to provide care.

In addition to the 33 group homes, the state operates the Eastern Oregon Training Center (EOTC) in Pendleton for the developmentally disabled. EOTC is budgeted to provide intermediate care facility services for 45 adults with developmental disabilities. It also provides a short-term crisis stabilization unit for individuals who live in the community. The intermediate care facility offers a wide range of treatment services including health and medical care, personal care, recreation, occupational and physical therapy, skills training, education and vocational training, social services, psychological services, and community support.

The FTE included in the Long-Term Care program are state employees who work at the Eastern Oregon Training Center and the 33 state operated group homes for persons with development disabilities.

Revenue Sources and Relationships

Most of the Federal Funds are Medicaid (Title XIX). Federal Medicaid funds require state match that varies depending upon relative state per capita income. Oregon's match requirement fluctuates around 40% state funds to 60% Federal Funds. In addition, the budget includes Other Funds revenue from client contributions, estate recoveries, and returned General Fund that has been used in the Medicaid Upper Payment Limit (MUPL) mechanism.

Budget Environment

There are several factors relevant to the long-term care program budget. First, as the population grows older, the number of seniors needing services grows. In addition, as the baby-boomers age, the number of persons with disabilities also increases. Second, recruiters of care workers are having difficulty finding enough qualified persons to fill available jobs. Nursing facilities report problems hiring Certified Nursing Assistants and consumers who use in-home caregivers report high levels of turnover and difficulty locating new caregivers. Third, the electorate passed Ballot Measure 99 (November 2000), which created a commission to establish standards for in-home caregivers, provide training, and give them a structure to form a union. Since then, the home care workers have formed a local within a union and begun negotiations with the Home Care Commission which is represented by the Department of Administrative Services. The two parties are currently in mediation. Higher wages for in-home caregivers could lead to higher wages in other long-term care settings. Fourth, with respect to DD services, recent court rulings across the nation have confirmed that Medicaid is an entitlement and that persons must be served in the least restrictive environment possible. In Oregon, the *Staley v. Kitzhaber* lawsuit settlement phases in universal access to developmental disability services. The initial cost estimate was $350 million total funds for the six year plan. The settlement calls for elimination of a waiting list for services and the reduction of the number of situations requiring a crisis response. More specifically, during the 2001-03 biennium, 1,895 more persons were to receive DD support services and 100 more persons were to receive non-crisis comprehensive (24 hour/day) care. To deliver support services, a "brokerage" system was established statewide to assist persons with developmental disabilities and their families to access available support services.

Budget balancing General Fund reductions in the long-term care program area included $0.9 million of state operated group home savings, $1.0 million of savings from a slower roll-out of Staley Settlement services, $1.0 million from the elimination of one planned state operated group home providing DD services to children and the delay of another home, $1.1 million from the delayed deployment of quality assurance staff related to the Staley Settlement, and $7.2 million from the elimination of a scheduled cost of living adjustment for in-home service providers. HB 5100 unspecified reductions totaled about $31.8 million General Fund for this program area during the 2001-03 biennium. To meet this reduction, the Department is proposing to eliminate Medicaid long-term care services for persons in care levels 4-17 ($15.0 million), nearly eliminate Oregon Project Independence ($1.1 million), reduce assisted living and nursing facility rates by $2.2 million and $0.8 million, respectively, and scale back the expansion of DD services under the Staley Settlement by $11.9 million.

Governor's Budget

As noted earlier, the Governor's budget reflects the roll-up of proposed HB 5100 reductions—some of which were never implemented. For example, the Governor's budget eliminates long-term care services to clients in survival priority levels 5-17. The final HB 5100 reduction eliminated only survival priority levels 10-17, and the Legislative Assembly through SB 5548 provided funding to add-back levels 10 and 11 until June 30, 2003.

Likewise, the Governor's budget reflects some reductions to provider reimbursement, but not nearly to the levels that were proposed in the Department's final list of HB 5100 reductions.

The cuts made to services to the developmentally disabled are consistent between the Governor's budget and the final HB 5100 reductions. Staley Settlement reductions for the 2003-05 biennium in both instances totaled nearly $85.7 million. SB 5548 provided funding ($7.4 million) to restore a portion of the 2001-03 reduction—enough to hopefully provide the most important services under the Staley Settlement and avoid a reopening of the lawsuit. The bill also restored cuts to provider reimbursement. Provider rates for nursing facilities, assisted living facilities, and adult foster homes will thus be maintained through at least the end of the 2001-03 biennium.

The following list of General Fund cuts shows the more significant reductions in the Governor's budget. It reflects those cuts that were on the initial HB 5100 cut list as well as the amount of an inflationary adjustment that was not included in the Governor's budget. All of these General Fund reductions also reduce the state's ability to garner federal Medicaid match. All told, almost $175 million of federal Medicaid is also lost in conjunction with these cuts.

- Staley Settlement services for persons with developmental disabilities - $85.7 million.
- The elimination of nursing facility rebasing - $8.2 million.
- Reduce Oregon Project Independence - $5.8 million. The Department indicates that there is about $7.1 million remaining in the Governor's 2003-05 biennial budget.
- Eliminate survival priority levels 5-17 - $31.2 million.
- Impact of eliminating the Medically Needy program in the Health Services cluster - $5.0 million.
- No inflation - $30.0 million.

In April or early May 2003, the Department will submit a revised Governor's budget (a "reshoot") that will not only update the budget for expected caseload changes, but will also include final HB 5100 reductions. The "reshoot" will not include the roll-up of any add-backs made in SB 5548 by the Legislative Assembly.

Because both the long-term care program and Oregon Health Plan are funded with Medicaid, a reduction in one of these program budgets also may lead to a reduction in the other budget. When Medicaid long-term care services are eliminated for clients in survival priority levels, 12-17, for example, the health plan budget is also reduced because these clients are no longer eligible for Medicaid acute care services. Likewise, when the Assembly adds funding to restore Medicaid long-term care services, it must also provide more funding for the health plan. The General Fund amounts listed above are only those for Medicaid long-term care services and do not include the funding impact upon the health plan.

SPDs – Older Americans Act

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Federal Funds	24,535,779	26,813,763	26,813,763	26,169,351
FTE	0.00	0.00	0.00	0.00

Program Description

SPDS is the state administrator of the Older Americans Act (OAA), a federal program targeted to persons 60 years old and older. SPDS distributes the funds to local Area Agencies on Aging, which deliver a variety of services including information and referral, transportation, congregate meals and "meals on wheels," senior employment programs, legal services, and insurance counseling. Some of the services are required by the OAA; local advisory committees develop other optional programs. The Long-Term Care Ombudsman expects to receive about $600,000 of Older Americans Act funds during the 2003-05 biennium to implement its programs.

Revenue Sources and Relationships

The program is supported entirely with Federal Funds. Program match rates vary depending on the OAA Title and range from 10% state funds to 15%. Administrative funding requires a 25% state match rate. Oregon uses Oregon Project Independent (OPI) General Fund as well as AAA local resources as its required match. Because OPI is eliminated in the Governor's budget, an additional source of match may need to be found.

Budget Environment

The Older Americans Act of 1965 was re-authorized by Congress in 2000 after more than five years of negotiation. This action included a new appropriation of $125 million for Federal Fiscal Year 2001 for a National Family Caregiver Support Program. The program includes services to provide information to help families in their caregiver roles; caregiver counseling, training and peer supports; respite care; and competitive grants to develop new approaches to care-giving. Because Older Americans Act revenue is exclusively federal, no reductions were made to this program during the Legislative Assembly's special sessions.

Governor's Budget

The Governor's budget reflects anticipated Older Americans Act revenue of $26.2 million.

SPDs – Direct Financial Support

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,578,113	651,394	n/a	204,159
Other Funds	26,718,093	29,827,908	n/a	9,167,904
Federal Funds	0	554,539	n/a	0
Total	**30,296,206**	**31,033,841**	**n/a**	**9,372,063**
FTE	0.00	0.00	0.00	0.00

Program Description

DHS provides direct financial support to many seniors and persons with disabilities. Excluding Food Stamps which are budgeted in the Children and Family Services (CAFS) cluster, this program area includes General Assistance, the Oregon Supplemental Income Program (OSIP), the Employment Initiative, the Employed Persons with Disabilities Program, and cash payments for special needs.

- *General Assistance* - provides a cash grant of about $320 for adults who are severely disabled, have extremely limited resources and income, and are expected to qualify for federal Supplemental Security Income (SSI). Clients must immediately file an application for federal benefits. An applicant is not eligible for General Assistance if drug addiction or alcoholism is material to his or her disability. The client must engage in medical treatment (at no cost to the client) and cooperate with the Vocational Rehabilitation program to develop an employment plan, when advisable. The Department has proposed that this program be eliminated to reach its share of HB 5100 reductions. This reduces DHS costs by $2.6 million General Fund during the 2001-03 biennium. The Governor's budget eliminates this program.
- *The Oregon Supplemental Income Program (OSIP)* - provides a small monthly cash payment for disabled, aged, or blind individuals receiving federal SSI benefits though the Social Security Administration. The maximum federal SSI benefit for individuals is $545 per month beginning January, 2002. For couples, the maximum federal SSI benefit is $817 per month. Increases in the federal grant throughout the 2003-05 biennium are likely, but unknown at this time. OSIP 2003-05 payments to the elderly and disabled are about $18.00 and $6.00 per month, respectively. Payments to the blind are expected to be about $37.00 per month. In some cases, special needs payments are also made for food, guide dogs, special shelter needs, telephone, minor home adaptation, and laundry. Although the OSIP monthly grants are small relative to the SSI grant, federal law requires that these state payments be made in order for the state's residents to qualify for SSI benefits. The minimum payment required by federal law is $1.70 per month.
- *Employment Initiative* - the goal of the program is to serve severely disabled clients who need assistance with health care, transportation, housing, or long-term care before they can consider employment. This goal dovetails with the federal Workforce Incentives Improvement Act (WIIA) that was passed in 1999. This act attempted to remove a significant impediment to persons with disabilities seeking employment—the loss of health and other benefits resulting from a higher household income from wages.
- *Employed Persons with Disabilities* – this program assists persons with disabilities who are already working to remain at work and retain their eligibility for Medicaid.
- *Special Needs Cash Payments* – The Department uses these payments to reduce the need for more expensive long-term care payments. For example, these funds could be used to purchase an emergency response system that would allow a client to live alone without an onsite caregiver, or to make home adaptations that allow a client with disabilities to retain mobility in a safe environment.

Revenue Sources and Relationships

All of the direct financial support programs are funded with General Fund. However, much of the General Fund in these programs was, during the 2001-03 biennium, used to implement the Medicaid Upper Payment Limit (MUPL) program—a mechanism that ultimately returned this General Fund to the Department as Other Funds. In the Governor's 2003-05 budget, the $9.2 million of Other Funds revenue is all returned MUPL General Fund.

In the past, the General Assistance program received reimbursement from the federal government for General Assistance payments paid to clients who are determined eligible for federal SSI benefits. DHS did not receive reimbursement for clients who are determined eligible for Social Security Disability Insurance (SSDI) benefits.

The Department expects to receive about $6.0 million of General Assistance reimbursement on behalf of SSI clients who were General Assistance recipients prior to the time the program was ended. This Other Fund revenue is used in the Governor's budget to support the Long-Term Care program.

Budget Environment

The General Assistance caseload is constrained by the amount of General Fund and SSI reimbursement. As a result, since 1997 the caseload has been about 2,900. However, as noted above, the program is eliminated as part of the HB 5100 budget reductions—cutting about $2.6 million General Fund during the 2001-03 biennium.

The number of persons receiving SSI drives the OSIP budget. DHS projects OSIP payments will be made to nearly 43,000 clients during 2003-05. As noted above, OSIP payments are a required part of the federal SSI program.

DHS is hopeful that the effects of the Employment Initiative and Employed Persons with Disabilities program, coupled with the previously mentioned WIIA, will lead to greater demand for this program by persons with severe disabilities who want to become employed. Program growth is partially dependent upon available staff and funding within the Vocational Rehabilitation programs and the availability of General Fund resources committed to this initiative.

Governor's Budget

The Governor's budget continues the reductions made in HB 5100—most notably, the elimination of the General Assistance program.

SPDs – Program Support and Central Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	79,063,249	84,944,063	n/a	91,132,685
Other Funds	38,329,139	27,134,075	n/a	23,818,477
Feder,al Funds	155,244,082	144,143,961	n/a	166,926,644
Total	**272,636,470**	**256,222,099**	**n/a**	**281,877,806**
FTE	882.72	808.85	n/a	725.61

Program Description

Like the long-term care program area, this program area combines what was previously administration and program support (including county staff) within the senior and disabled services and services for developmentally disabled persons programs. In addition, this program area includes the exclusively federal funded disability determination services program. Disability Determination Services determines eligibility for Social Security Act claims for Disability Insurance (SSDI – Title II of the Social Security Act) and Supplemental Security Income (SSI – Title XVI of the Social Security Act). In Oregon, about 126,000 persons receive SSDI or SSI. Benefits for these persons amount to about $67 million each month.

The budget for this program area includes funding for Transfer Area Agency on Aging (AAA) staff and county staff that provide long-term care case management services. Transfer AAAs are agencies that contract with the state to provide Medicaid long-term care eligibility and case management services. Because these staffs are not state employees their approximately 800 FTE are not reflected in the 725.61 FTE in the Governor's budget. The budget also includes expenditures for non-profit staff that provide DD brokerage services.

The 725.61 FTE that are funded in this program area include Contract AAA staff (who are state employees), staff in the disability determination services program, as well as nursing facility and DD group home licensing staff and client care monitoring staff. Contract AAAs are agencies that are managed by counties (directors are county employees), but use state employees to carry out staff functions. State management and policy staff are also included in this program's FTE amount.

Revenue Sources and Relationships

Other Funds revenue comes primarily from licensing fees, local county and other governmental agency matching funds (for Medicaid), and transfer funds from the Long-Term Care Ombudsman and Board of Nursing that are also matched with Medicaid and returned to these two state agencies. Federal Funds revenue includes $43.1 million of funding through Titles II and XVI of the Social Security Act for Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) eligibility determination. Other Federal Funds revenue comes from the Medicaid ($117.7 million) and Medicare ($5.6 million), Food Stamp ($3.0 million), and Older Americans Act ($1.2 million) programs.

Governor's Budget

The Governor's budget reflects the staffing impact of caseload changes resulting from HB 5100 reductions as well as normal caseload growth.

Insurance Pool Governing Board (IPGB) – Agency Totals

	1999-01 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	489,780	525,529	438,304	20,457,320
Other Funds	20,415,374	20,032,018	31,538,476	38,600,923
Total	**20,905,154**	**20,557,547**	**31,976,780**	**59,058,243**
Positions (FTE)	16.93	11.50	35.76	46.50

The Insurance Pool Governing Board (IPGB) was created in 1987 as a private insurance component of the Oregon Health Plan (OHP). The seven-member Board administers two programs designed to increase access to private health insurance. The Marketing, Information, and Outreach program serves as a central source for employers and individuals concerning information about health care resources and health insurance. In addition, the 2001 Legislative Assembly (HB 3126) restored the program's responsibility for developing health benefit packages for small employers. The Family Health Insurance Assistance Program (FHIAP) provides premium subsidies to previously uninsured, low-income families and individuals.

IPGB – Marketing, Information and Outreach

	1999-01 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	489,780	525,529	438,304	502,818
Other Funds	0	51,731	125,832	77,984
Total	**489,780**	**577,260**	**564,136**	**580,802**
Positions (FTE)	2.00	2.00	2.00	2.00

Program Description

Originally, IPGB was created to increase access to health insurance for small businesses and the self-employed. The Board certified specially designed health benefit packages for businesses with 25 or fewer employees. In the mid-1990s, health insurance reforms significantly increased insurance options for small businesses and the self-employed. The 1999 Legislative Assembly passed legislation (SB 414) to phase out the certification program. The phase-out was completed in July 2000, leaving the program to focus entirely on serving as a central source of information about health benefits plans for individuals, employers, and the self-employed. The 2001 Legislative Assembly restored IPGB's responsibility for offering health insurance plans for small employers (HB 3126). The Board also conducts continuing education training for insurance agents, markets generic health insurance to small employers, and provides referrals to specially trained health insurance agents. The Board has two full-time marketing positions, but otherwise shares staff and administrative resources with the Oregon Medical Insurance Pool Board (OMIP) in the Department of Consumer and Business Services.

Revenue Sources and Relationships

The General Fund supports 87% of program expenditures in the Governor's budget. Other Funds revenue is generated from charges for agent training and reimbursements from OMIP and FHIAP for the cost of shared staff.

Budget Environment

Health care cost increases coupled with low investment market returns have resulted in significant health insurance premium increases. Higher premiums along with the economic recession have, in turn, led to fewer employers offering employer-based coverage and more shifting of costs from employers to employees through higher premiums, co-payments, deductibles, and co-insurance.

Counter to the national trend, during the last half of the 1990s, Oregon experienced an increase in employer-based health insurance coverage. In 1994, 56% of employers offered health insurance for their employees. The number increased to 72% by 1998. Analysts believe this percentage has dropped over the last year because of the economic recession. The Office of Health Planning Policy and Research estimated that in 2000, there were approximately 422,000 people in Oregon who did not have health insurance. Of the uninsured, approximately 65% live in households with incomes below 200% of the federal poverty level (FPL). Dramatically increasing health care costs and a decreasing percentage of employer based health insurance coverage may make it more difficult for IPGB to facilitate access to private health insurance.

The agency’s 2001-03 budget was reduced by $87,225 General Fund based on special session actions during the interim. To manage the reductions, the agency took actions to delay filling a vacant position as well as cutting services and supplies expenditures.

IPGB has a direct link to Benchmark 58, (Percentage of Oregonians without health insurance). The Marketing, Information and Outreach program affects the benchmark by encouraging small employers to offer health insurance benefits and by educating insurers concerning ways to improve access for the uninsured.

Governor’s Budget

The Governor’s budget of $0.6 million total funds ($0.5 million General Fund) continues the marketing, information, and outreach program into the 2003-05 biennium. The budget restores several one-time reductions that were implemented during the 2001-03 biennium, but also includes the fifth special session reduction of $37,024 General Fund. The Governor’s budget includes inflationary increases as well.

IPGB – Family Health Insurance Assistance Program

	1999-01 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	19,954,502
Other Funds	20,415,374	19,980,287	31,412,644	38,522,939
Total	**20,415,374**	**19,980,287**	**31,412,644**	**58,477,441**
Positions (FTE)	14.93	9.50	33.76	44.50

Program Description

The Family Health Insurance Assistance Program (FHIAP) was created in 1997 as an expansion of the Oregon Health Plan. It provides direct premium subsidies to low-income individuals who earn too much to qualify for Medicaid, but not enough to afford their employer’s health benefit coverage or an individual health insurance policy. The law allows the subsidy for persons with incomes up to 200% of the federal poverty level (FPL). Until November 2002, the program provided subsidies of 95, 90, or 70% of the beneficiaries’ premium cost, depending on income level, for persons earning less than 170% of the FPL. Beginning in December 2002, persons with incomes ranging between 171% and 185% of FPL could also receive a 50% subsidy on their premium costs. This change was the result of a new Oregon Health Plan waiver, known as OHP 2. OHP 2 also allowed state funds budgeted within FHIAP to be matched with federal Medicaid and Children’s Health Insurance Program (CHIP) revenue.

To qualify for the subsidy, persons must have been uninsured for six months except for those enrolled in Medicaid. Participants must accept employer-based coverage in cases where there is an employer contribution. Those without access to employer-based coverage, or in cases where the employer does not make a contribution, choose from plans offered by insurance carriers certified by IPGB. Adults may receive the subsidy only if all children in the family are covered by a health insurance program. Enrollees are responsible for any co-payments, co-insurance, and deductibles of the plans they select, as well as the unsubsidized portion of the premium. The program is not an entitlement, and enrollment is on a first-come, first-served basis. In April 2002, the FHIAP caseload was about 3,700 persons. Of these, 585 or 16% were insured through their employer in a group medical insurance plan, 26% were individually insured through the high risk Oregon Medical Insurance Pool (OMIP), and 58% were individually insured through the commercial health insurance market. The average employer contribution toward group health insurance premiums was about 42%. The subsidy payment was about 51% of the premium and the employee’s share of the premium was about 7%. As of the middle of December 2002, the caseload was about 3,100. The drop is the result of natural attrition and a managerial decision to limit new enrollment until the OHP 2 waiver was approved in October. The agency also reported in December that although enrollment had decreased, an additional 1,900 persons had been approved, but were not yet enrolled (i.e., they had not yet selected a commercial insurance plan).

Revenue Sources and Relationships

Prior to the 2001-03 biennium, FHIAP had been funded with tobacco tax revenue. The legislatively adopted budget for 2001-03 shifted funding for FHIAP from tobacco taxes to proceeds from the settlement reached with tobacco products manufacturers in the Master Settlement Agreement of 1998. Because the Legislative Assembly in its 2002 fifth special session used future tobacco settlement payments to securitize $150 million of bonds, this revenue source is no longer available for FHIAP.

The OHP 2 waiver allowed Oregon to receive both federal CHIP and Medicaid match on FHIAP state expenditures. The waiver was implemented beginning in November 2002. The Governor's 2003-05 budget assumes federal revenue of $38.5 million--$26.4 million of CHIP revenue and $12.1 million of Medicaid funding. CHIP revenue requires match of 28% state funds to 72% federal funds and Medicaid funds are matched 40% state funds to 60% federal funds. Because these federal funds are initially received by the Department of Human Services and subsequently transferred to FHIAP, they are spent as Other Funds in the FHIAP budget.

The agency reports a projected 2001-03 biennium ending balance of Other Funds revenue for the program of $0.7 million. This revenue represents the accumulation of interest earnings and miscellaneous income. The revenue could be used to replace General Fund.

Budget Environment

Two significant factors are driving the FHIAP budget for the 2001-03 and 2003-05 biennia. First, as noted above, health insurance premiums have risen significantly over the last several years. Higher premium costs mean that FHIAP subsidies will also be higher and that the program, given only a modest inflationary increase, would be able to serve fewer persons.

Second, the OHP 2 waiver, approved by the Centers for Medicare and Medicaid Services (CMS) in October 2002, will allow FHIAP funds to be used as match for federal CHIP and Medicaid revenue. During the latter part of the 2001-03 biennium, the agency expects to spend $11.1 million of federal revenue. The Emergency Board in May and October 2002 increased the agency's Other Funds expenditure limitation to accommodate the increased revenue. No special session reductions were made to the program during the interim.

As a result of the OHP 2 expansion, the FHIAP caseload, which stood at 3,100 in December 2002, was expected to increase to 9,417 by the end of the biennium. However, given the Governor's budget for the 2003-05 biennium, the program roll-out will be slower than the earlier projection and will save about $2.5 million of Tobacco Settlement revenue during the 2001-03 biennium. These savings could be used to alleviate the state budget crisis, or alternatively, as carry-over to reduce General Fund in the FHIAP budget during the 2003-05 biennium.

The 2001-03 legislatively adopted budget included 9.50 FTE; the 2001-03 approved budget more than tripled the number of staff to 33.76 FTE to implement the expanded FHIAP. Clearly, this has important implications for agency managers who must develop and maintain new infrastructure and policies to assist an expanded number of agency employees. Also, one of the legislative expectations for the program was to emphasize more group coverage (purchased through employers) to the point where the level of funding for group coverage was roughly equal to funding for individual health insurance plans. Because group coverage is generally less costly than individual coverage and employers contribute a substantial portion of the cost of group coverage, the projected 9,417 caseload at the end of the 2001-03 biennium is expected to consist of 6,403 group enrollees and 3,015 individual enrollees. In April 2002, 585 or 16% of the total 3,700 person caseload was enrolled in group coverage. Thus, the goal of equalizing the funding for group and individual enrollees represents a significant challenge to the agency.

Over the last several years, FHIAP has been popular. The policy of subsidizing the cost of purchasing commercial health insurance has received bi-partisan support. Proponents of the program point out that FHIAP subsidies are less costly than Medicaid programs for similar populations. In addition, they argue that access to health care is often better for commercial policyholders than OHP recipients because health care providers receive better reimbursement under commercial plans than under OHP. This support has led to speculation about more aggressive expansion of FHIAP in the future as a public health care model that would further complement or supplant a significant portion of Oregon's Medicaid program. On the other hand, OHP covers economically poor people and some categories of persons who also have costly and complex medical needs. Would commercial coverage be available or adequate for the poorest and most medically needy? If so, would it be less costly than the current Medicaid system? And would CMS approve such a plan?

In the existing state government fiscal situation, discussions of expansion may be moot. However, a serious deliberation about the role of FHIAP as a model for accessible public health care is warranted during a time of probable service cutbacks to the OHP. Is it appropriate, for example, to subsidize health care costs for working persons who are at 170% of FPL through FHIAP, while reducing health care services to those at 75% of FPL who are enrolled in OHP and receive the Standard Benefit package? Can the FHIAP model be used to "privatize" some significant portion of Oregon's Medicaid program and possibly lower the state's health care budget? Clear answers to these policy questions are essential to the development of the agency's 2003-05 budget.

Governor's Budget

In addition to matching state funds for federal Medicaid and CHIP revenue, the OHP 2 waiver requires Oregon to meet a maintenance of effort standard with respect to FHIAP. Oregon must spend $40.9 million of state funds over the next five years, or about $16.4 million each biennium to fulfill this requirement. The requirement cannot be met with state funds that are used to administer the program such as eligibility staff and associated services and supplies. The Governor's budget replaces tobacco settlement funds with a total of $20.0 million of General Fund during the 2003-05 biennium. Of this amount, $16.4 million is used for subsidy payments and thus fulfills the maintenance of effort requirement. This General Fund is matched with about $34.6 million of federal revenue (spent as Other Funds). The remaining $3.6 million of General Fund and $3.9 million of Other Funds are used to finance 45 staff positions (44.50 FTE). The Governor's budget assumes an average biennial 2003-05 caseload of 14,199.

Long-Term Care Ombudsman – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	544,131	611,153	598,900	587,050
Other Funds	1,231,489	1,279,938	1,269,522	1,458,023
Total	**1,775,620**	**1,891,091**	**1,868,422**	**2,045,073**
FTE	8.00	8.00	8.00	8.00

Program Description

The mission of the Office of Long-Term Care Ombudsman is to enhance the quality of life, improve the level of care, protect the individual's rights, and promote the dignity of each Oregon citizen residing in a long-term care facility. Long-term care facilities include nursing, residential care, and assisted living facilities, as well as adult foster homes. To carry out its mission, the agency investigates and resolves complaints made on or on behalf of residents and their families concerning long-term care facilities, mediate and resolve disagreements between residents and facility operators, and regularly monitor care in long- term care facilities. If an investigation reveals reasonable cause to suspect abuse, the Long-Term Care Ombudsman reports the agency finding to the Seniors and Persons with Disabilities Cluster (SPDs) of the Department of Human Services (DHS). DHS then refers those allegations to local adult protective services agencies for investigation.

The work of the agency is accomplished with the aid of a network of 183 certified volunteers in communities across the state. The Long-Term Care Ombudsman staff provides on going training, support, and technical assistance to volunteers, and deals directly with difficult complaint handling and complex resident problems. Each volunteer contracts with the agency and assumes responsibility for visiting, at least once bi-monthly, approximately 100 residents. In addition to certified volunteers who investigate complaints, the agency also uses volunteers to manage its Residential Associate/Community Hospitality and Talk RAP/CHAT program, this effort is designed to encourage informal citizen interaction with long- term care facility residents. Other agency volunteers manage local friendly visitor programs that provide social support to RAP/CHAT volunteers and typically go to their assigned facilities weekly for visits with residents. Currently there are 75 RAP/CHAT volunteers serving in the state. The agency monitors the long-term care system and advocates for changes that enhance resident quality of life and quality of care.

Revenue Sources and Relationships

The majority of the General Fund is used to match either federal Medicaid funds (50% federal and 50% state or local funds), or Title III or Title VII funds from the federal Older Americans Act funds (75% federal and 25% state or local funds). The Older Americans Act funds for the ombudsman program are capped and are estimated to be about $448,239 for the 2003-05 biennium. The level of available Medicaid funds is driven by the time spent working on complaints from Medicaid clients and the amount of non-federal funds the agency can provide.

DHS is the state agency that receives the Federal Funds for both the Medicaid and Older Americans Act programs. For this reason, the Ombudsman must provide the required matching General Fund to DHS. To track the General Fund for budgetary purposes, the Ombudsman's office pays the General Fund to DHS. DHS in turn uses these funds to match the Federal Funds and transfer the original payment and the Federal Funds back to the Ombudsman. The Ombudsman spends these dollars as Other Funds. It uses the Federal Funds and its unmatched General Fund to operate its programs. Thus, the agency's budget includes expenditure limitation for both the payment to DHS as well as the agency's operating budget.

Budget Environment

The primary budget driver of the Long-Term Care Ombudsman program is the number of long-term care facilities and clients in Oregon. There are approximately 42,000 beds in Oregon's long-term care system. Residents live in 149 nursing facilities, 220 residential care facilities, 179 assisted living facilities, and 1,850 non-relative adult foster homes. While the number of nursing homes has declined, the number of both residential care facilities and assisted living facilities has grown rapidly. Two years ago there were 156 nursing, 185 residential care, and 139 assisted living facilities. The number of non-relative adult foster homes has remained roughly the same.

The Long-Term Care Ombudsman is concerned both with the declining number and condition of nursing facilities as well as the rapid growth of residential care and assisted living facilities. Oregon made a deliberate policy choice in the 1980's to build up its community-based long-term care system as an alternative to nursing facility care. Since then, community-based options have expanded and continue to expand significantly and the number of nursing facilities has declined. The Ombudsman has concerns about the ability to adequately monitor the quality of client care given the rapid growth of residential care and assisted living facilities. As remaining nursing facilities struggle to survive financially, the Ombudsman is concerned that some will attempt to reduce costs at the expense of client and resident care will decline. In addition, there are concerns that assisted living facility staff do not have the skills to care for the increasingly impaired clients who, years ago, would have been served in nursing facilities.

Governor's Budget

The Governor's proposed budget includes a $24,103 decrease in General Fund from the legislatively adopted budget for the 2001-03 biennium. The Governor's budget reduced Services and Supplies and assumes a 6% increase in Title VII Older American Act funding. The Governor's budget also retained $15,000 of Other Funds ending balance.

Psychiatric Security Review Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	666,640	722,271	698,724	793,770
Other Funds	2,000	2,000	2,000	2,000
Total	**668,640**	**724,271**	**700,724**	**795,770**
FTE	4.00	4.00	4.00	4.00

Program Description

The Psychiatric Security Review Board was created by the Legislature in 1978. The five-member Board supervises the custody and release of persons who suffer from mental disease or defect, present a substantial danger to others, and have been found guilty except for insanity of committing a crime. Sentencing guidelines do not apply; the length of jurisdiction is for the maximum statutory sentence possible if convicted.

The Board's two major functions are to hold administrative law hearings to determine suitable placements for persons in its custody and to monitor persons on conditional release in the community. The Board can commit a person to a state hospital, conditionally release a person in the state hospital to a community-based program, revoke a conditional release, or discharge a person from its jurisdiction. The Board coordinates treatment and case management for those on conditional release. The Board's primary concern is protection of the public.

Revenue Sources and Relationships

The agency depends on General Fund for its operations. Other Funds are from a $10,000 award from the American Psychiatric Association in 1994. The funds are used for staff and Board member training. The unspent balance will carry forward for expenditure in 2003-05.

The costs for mental health treatment and supervision of the Board's clients at the Oregon State Hospital (OSH) or in the community is not included in the Board's budget, but in the budget for the Department of Human Services Mental Health Services.

Budget Environment

The Board currently has jurisdiction over 593 persons. In past years, the Board averaged 55 new cases per year, but that average has increased to 76 and is expected to reach 80 in 2002. As the population grows, there is more demand on limited community mental health services, regional acute care services, and longer-term treatment at OSH. Without treatment, more mentally ill persons come into the criminal justice system. Also, more criminal defendants are opting for the insanity defense as an alternative to Measure 11's (1994) longer mandatory sentences. Unless mental health resources are expanded, or criminal sentencing laws changed, the caseload is expected to continue growing.

About 350 of the persons under the Board's jurisdiction are in OSH. The Board projects more than 245 clients will be on conditional release in the community. The number of conditional releases is constrained by the availability of community housing and appropriate support. Without these resources, patients stay longer at OSH's more restrictive forensics ward. The number of clients is dependent upon the amount of funding the Department of Human Services receives for individuals needing mental health services.

Governor's Budget

The Governor's budget continued the Board's operations at relatively the same level as 2001-03. The overall budget was about 13.6% more than the 2001-03 legislatively approved budget to cover inflation and other cost increases. The majority of the increase relates to rent. The rent for 2001-03 was set artificially low because it was negotiated after the development of the 2001-03 budget. The Facilities Division of DAS negotiated a five year lease for the Board so that most of the increase normally assessed in the first two years was delayed and spread over the remaining three years of the lease.

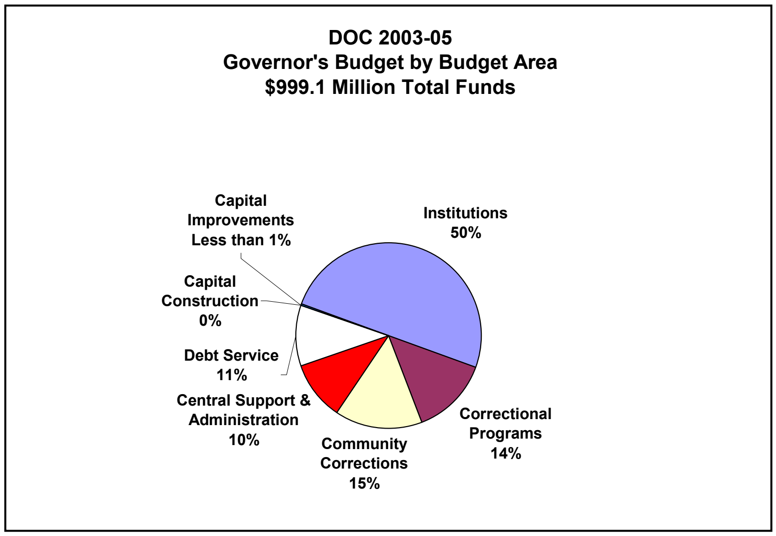
Public Safety

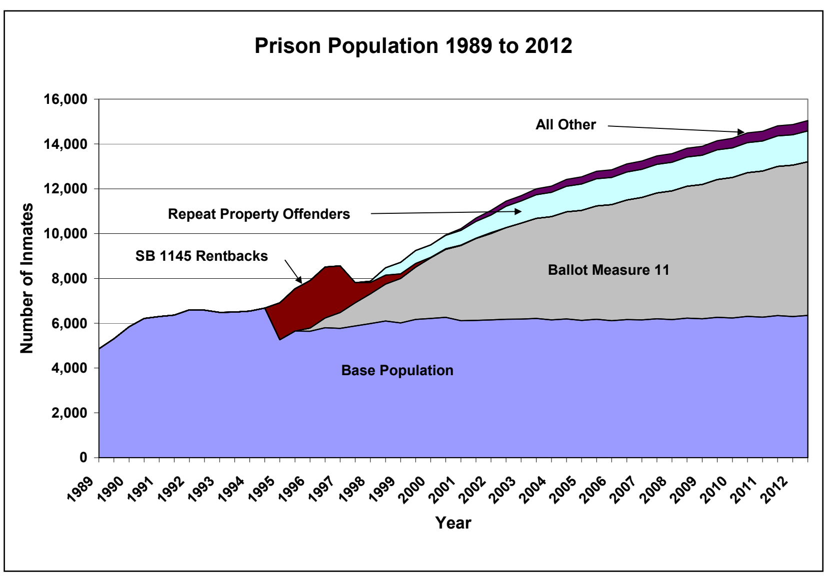
Department of Corrections (DOC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	759,770,230	861,647,992	795,882,904	955,550,900
Other Funds	300,213,785	144,492,504	186,932,717	32,930,017
Federal Funds	10,904,832	6,823,316	10,453,538	10,570,336
Total	**1,070,888,847**	**1,012,963,812**	**1,243,769,159**	**999,051,253**
FTE	3457.25	3812.44	3769.02	3977.13

The Department of Corrections (DOC) has two primary functions – the operation of prisons and the state responsibility of the community corrections system. The Department operates 12 institutions for the incarceration of adult and certain juvenile felons sentenced to prison for more than twelve months by the courts. The prison population is projected to grow from 11,957 in July 2003 to 13,036 in July 2005 (March 2003 forecast) requiring further capacity in future biennia. The community corrections system is based on SB 1145 (1995) which transferred management of offenders sentenced or sanctioned for incarceration periods of 12 months or less and all felony offenders under community supervision to the counties effective January 1, 1997. The Department provides funds to local governments to offset the costs of supervising these offenders.

The budget for DOC is almost $1 billion TF with half of the budget accounted for with the operation, housing, and security in the 12 prisons in the system, 14% for medical, education, mental health, substance abuse treatment and other correctional programs, 15% for community corrections payments to counties, 11% for the debt service for prison and local jail construction, and 10% for central support and administration. In past biennia, there has been considerable capital construction included in the budget, but the 2003-05 Governor's budget delays further construction. There is only $2.0 million TF (less than 1%) in the budget for capital improvements for DOC facilities across the state.





The most significant cost driver for the DOC budget is the number of incarcerated offenders in the prison system. This graph shows the growth in the actual and projected prison population increasing from roughly 5,000 in 1989, to the present 12,000 in 2003 to an estimated 15,000 in 2012. This expected 200% increase over this period has resulted in a large construction program to expand the number of beds in the system, growing number of staff to supervise the inmate population, and an increased community corrections system to supervise this population after release from a state prison.

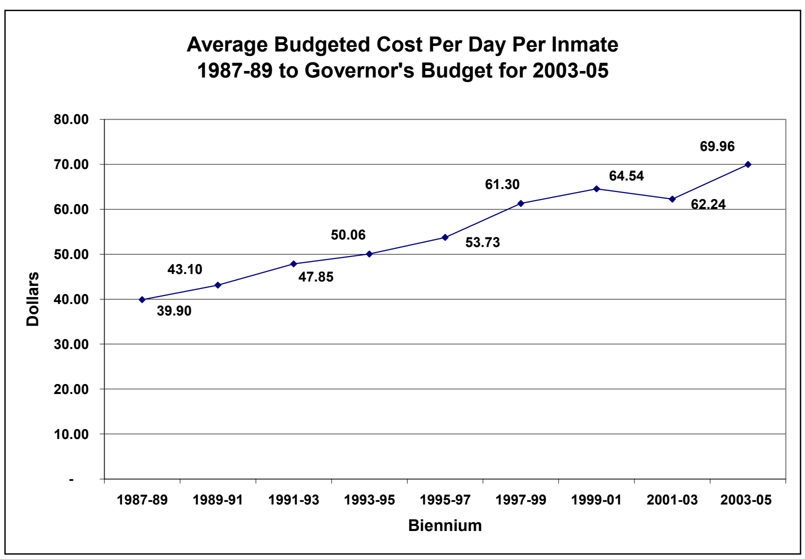
The passage of Ballot Measure 11 (BM 11) created the need to significantly change the corrections systems in Oregon creating the need for increasing the building program. The increases in the number of inmates due to BM 11 was not so much due to the growth in the number of offenders entering the system as much as to the length of time BM 11 offenders spend in prison. SB 1145 also impacted the prison system by transferring the responsibility for those sentenced to 12 months or less to counties. This bill made a one-time reduction in the growth in the increases in the prison population after a short adjustment period when counties used the state prisons for incarceration until new jail capacity was completed. Other factors contributing to the prison population growth include changes by the 1999 Legislature that increased the sentences for repeat property offenders.

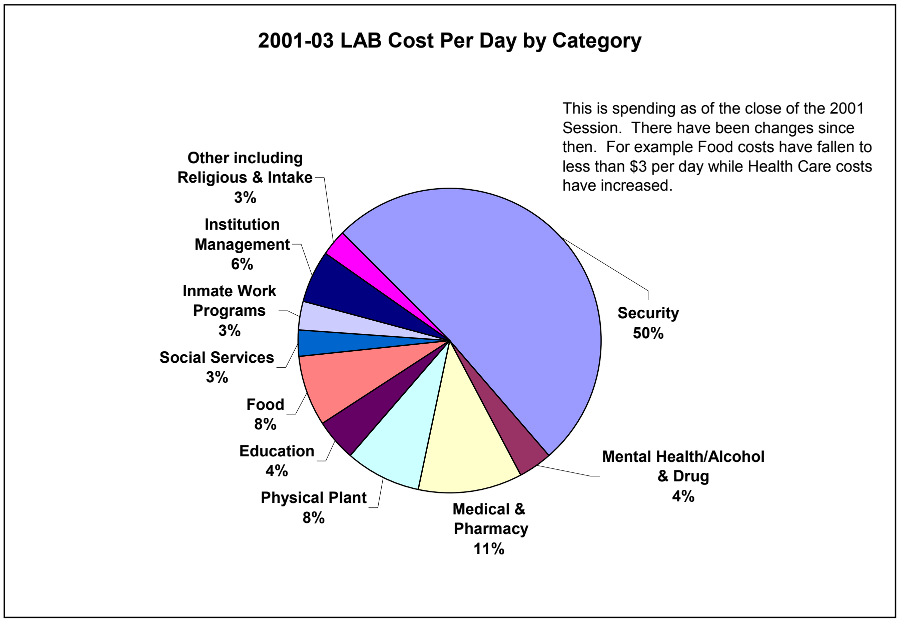
The ability of state policy makers to control the prison population growth is constrained by ballot measures passed by Oregon voters including; (1) Measure 11 (1994) which established mandatory minimum sentences for specific major crimes; (2) Measure 4 (1988) which eliminated probation for repeat offenders of specific crimes and eliminated the use of earned time; and (3) Measure 74 (1999) which was part of the crime victims package and requires that an offender must return to sentencing court to reduce a sentence. The table below demonstrates the impact of these measures, the number of inmates in each group, options that could reduce their impact, and the requirements for change.

Ballot Measures and Time Frames	Number in Prison as of 2/03	Steps to Change Release Date	Options for Savings
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	2,079	Simple majority of Legislature	Earned Time Credit Transitional Leave
Measures 11 and 4 inmates whose crimes were committed before 12/99	3,023	Two thirds majority of Legislature	Earned Time Credit
Measure 74 offenders whose crimes were committed after 12/99	6,038	Requires constitutional change	Earned Time Credit Transitional Leave

The Department of Administrative Services (DAS) prepares the Prison Population Forecast approximately every six months. The March 2003 forecast, which will be used for the legislatively adopted budget, shows an anticipated increase of the total prison population of 1,079 inmates from 11,957 in July 2003 to 13,036 in July 2005. This is an increase of 250 (July 2005) from the October 2002 forecast on which the Governor's budget is based. A new plan will need to be developed by DOC to meet the increase in forecasted population.

The average cost-per-day for an inmate in 2001-03 was $62.24 (Close of Session) and is expected to increase to $69.96 for 2003-05 in the Governor's budget (see attached graph). The amount for 2003-05 is overstated since it includes the costs of second merit increase for eligible employees. Debt service, department-wide administration, business services, and capital construction are not included in these costs. Cost-per-day in 2001-03 for individual institutions range from a low of under $40 at South Fork to over $75 at Shutter Creek. Facility by facility variance is due to a number of factors including age of facility, seniority of staff, programming at each facility, and the security level.





For the budget passed by the 2001-03 Legislature, the $62.24 cost-per-day is divided into a number of categories as displayed in the attached pie chart. Although some of these costs have changed during the biennium due to DOC rebalances and special sessions, the proportionate shares are still close to the displayed amounts. Some of these items like health services and education are not part of the institutions' budget but of the correctional programs' budget.

Ballot Measure 17 (1994) requires all inmates, with limited exceptions, to participate in work or work development training for a minimum of 40 hours per week. Oregon Correctional Enterprises (OCE) was created as a semi-independent agency for work related programs and its budget is outside legislative and executive branch budget control. It contracts with outside businesses and others to provide inmate labor for various production and services. Costs are included in the contracts, but often some costs still remain part of an institution's budget (e.g., security staff). The Institutions Division now has responsibility for oversight of inmate work crews.

The Department has implemented the "*Oregon Accountability Model*" designed to provide a foundation for insuring inmates are able to lead successful lives upon release and reducing recidivism. The department-wide model is based on holding inmates more accountable for their actions and also holds DOC staff more accountable in carrying out the mission of the Department. Targeted programs are provided to mitigate seven risk factors that indicate future criminal behavior: (1) people released inmates associate with, (2) substance abuse, (3) community functioning, (4) education and employment skills, (5) emotional and mental health, (6) marital and family life, and (7) attitudes. DOC employees are encouraged to act in a manner which demonstrates positive behavior for inmates at the same time inmates are provided incentives to change their behavior. The model also depends on giving inmates the skills and/or overcoming the barriers (e.g., substance abuse treatment) associated with finding employment after release. Positive family relationships are supported during incarceration specifically with children of inmates. These children are five to six times more likely to be incarcerated than their peers. Finally, DOC focuses on a seamless transition from incarceration to community supervision with connecting the inmate with the community corrections program prior to release to better insure that work, treatment, religious, and housing needs are addressed.

The Department of Corrections made significant reductions during the 2001-03 biennium in response to overall state revenue needs and internal rebalance issues. The agency-wide General Fund budget passed by the 2001 Legislature of $861.6 million was reduced by almost 8% to $795.9 million. Further cuts of $9.6 million GF were made to fill the gap from not having salary and other employee compensation fully funded. Finally, the 2003 Legislature (SB 5548) reduced the DOC budget by another $0.4 million GF in early March 2003. Major General Fund reductions in the Special Sessions and Rebalances (not including HB 5100 reductions) included:

- Construction savings at Coffee Creek and Two Rivers Correctional Facilities totaling $41.9 million which was used to offset General Fund debt service resources;
- Delay opening units at Snake River and Coffee Creek ($5.5 million);
- Refinance existing COPs to benefit from lower interest rates ($8.2 million);
- Offset General Fund with increased federal grant funds ($2.9 million);
- Reduce health, education, workforce development, and other correctional programs ($6.4 million);
- Vacancy savings and delayed hirings ($12.6 million);
- Savings from consolidating functions, better food service management, and other management changes ($6.0 million);
- Reduce community corrections grants ($1.0 million); and

- Other savings including administration, utilities, energy loan payments, and county bed rental ($7.5 million).

The shortfall due to the December 2002 state revenue forecast led to further reductions in vacancy savings/delayed hirings ($7.2 million GF) and a revenue reduction in community corrections grants ($2.4 million GF). The failure of the January 2003 tax measure led to $28.8 million of further GF reductions including:

- Additional reductions to community correction grants ($7.0 million);
- Further vacancy savings ($2.6 million);
- Construction savings at Coffee Creek ($3.1 million) used to offset debt service costs;
- Health services savings from better management practices ($3.8 million);
- Reduction in education, alcohol/drug treatment, and other correctional programs ($2.0 million); and
- Other savings or reductions including fund shifts, capital improvements, utilities, energy loan payments, staff reductions, and delayed purchases ($10.3 million).

Governor's Budget

The Governor's budget for 2003-05 represents an increase of $94 million General Fund or 10.9% from the 2001-03 budget approved by the 2001 Legislature. The Total Funds budget actually decreases by 1.4% over the same period, generally due to not having any capital construction in the Governor's budget. The major increases in the budget are driven by the growing prison population, increases in employee compensation and benefits, and the need to backfill the one-time fund shifts in 2001-03 debt service payments with General Fund. Other major features of the Governor's budget include:

- No further construction in new facilities to meet the growing prison forecast. Even though preliminary work had been started for facilities in Lakeview and Madras, additional construction is delayed until after the 2003-05 biennium. Instead, the Governor's budget relies on the use of over 400 emergency or temporary beds in existing facilities and the rental of 100 beds in local jails. This provides almost $50 million GF savings in operational costs compared to the original plans of opening up new facilities to meet the population increase;
- Increased resources for debt service ($7.5 million GF) for covering the costs of initial work on the Lakeview and Madras facilities as well as the new local jail facility in Multnomah County. Since the Governor's budget was developed, DOC used other resources to cover the costs of the initial work on the two facilities. As a result, there is almost $6 million GF of debt service resources that are not required;
- Reduction in work-base training, cognitive services, and transitional services ($3.7 million GF);
- Reduction in community corrections grants to counties for SB 1145 offenders and parole/probation supervision ($33.8 million). The budget was also reduced to reflect the decline in the October 2002 forecast of the community corrections caseload ($4.6 million GF); and
- Elimination of an adjustment for inflation including that for health services, energy costs, and community corrections grants ($16.1 million GF).

DOC – Institutions

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	347,491,507	405,521,866	395,879,991	475,139,488
Other Funds	7,713,650	12,925,580	13,202,427	14,355,702
Federal Funds	10,904,832	6,823,316	9,700,558	9,323,316
Total	**366,109,989**	**425,270,762**	**418,782,976**	**498,818,506**
FTE	2675.64	2979.54	2970.54	3109.17

Program Description

The Institutions Division is responsible for the security, housing, and operation of the 12 correctional institutions listed below. Responsibilities of this division include institution operations, security, food service, classification and transfer of inmates, release counselors, and inmate transportation. Programs or services such as health care, education, and mental health treatment are part of the Correctional Programs budget unit.

Department of Corrections Facilities

Facility Name	Location	Primary Security Level	Budgeted Capacity
Coffee Creek Correctional Facility	Wilsonville	Women's Medium/Intake	1,026
Columbia River Correctional Institution	Portland	Men's Minimum	470
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,584
Mill Creek Correctional Facility	Salem	Men's Minimum	310
Powder River Correctional Facility	Baker	Men's Minimum	286
Oregon State Correctional Institution	Salem	Men's Medium	880
Oregon State Penitentiary	Salem	Men's Maximum	2,068
Santiam Correctional Institution	Salem	Men's Minimum	390
Shutter Creek Correctional Institution	North Bend	Men's Minimum	350
Snake River Correctional Institution	Ontario	Men's Medium	2,900
South Fork Forest Camp	Tillamook	Men's Minimum	200
Two Rivers Correctional Institution	Umatilla	Men's Medium	1,632

Revenue Sources and Relationships

The Other Funds revenues originate from a variety of sources including: (1) services provided by inmate work crews, sale of medical prosthetics, meal tickets, witness fees, canteen sales, and inmate room and board reimbursements ($12.7 million); (2) sale of items produced by inmate work and training programs ($1.2 million); (3) inmate Welfare Fund revenues received from inmates or inmate-related sources such as coin operated telephones, canteen profits, vending machines, and copiers ($1.5 million); and (4) miscellaneous grants and donations ($4,940). Revenue from inmate work crews are used to fund the costs associated with the work crew while much of the remaining Other Funds revenue is used to offset General Fund resources.

The Governor's recommended budget assumed that $9.3 million in Federal Funds would be available through the federal State Criminal Alien Assistance Program (SCAAP) to offset General Fund expenditures for incarceration of illegal aliens. The most recent federal budget reduces this funding leaving an estimated $6 million gap in funding. This reduction will require a corresponding General Fund backfill or a program cut.

Budget Environment

The budget for Institutions is driven by the prison population forecast; sentencing laws; custody level requirements; local arrest, prosecution, and sentencing practices; and Ballot Measure 17 (1994) inmate work related requirements.

The Department of Administrative Services (DAS) prepares the Prison Population Forecast approximately every six months. The March 2003 forecast, which will be used for the legislatively adopted budget, shows an anticipated increase of the total prison population of 1,079 inmates from 11,957 in July 2003 to 13,036 in July 2005. This is an increase of 250 (July 2005) from the October 2002 forecast on which the Governor's budget is based. A new plan will need to be developed by DOC to meet the increased forecasted population.

The availability of minimum security beds remains the greatest need in capacity. Minimum security inmates are often placed into more expensive medium security beds. The Department had planned to open two new minimum security correctional facilities – Lakeview (400 beds) and Madras (432 beds) – and expand capacity at Shutter Creek (100 beds) and Powder River (100 beds) during the rest of this biennium and the 2003-05 biennium. In the Governor's budget for 2003-05 only the Shutter Creek and Powder River projects will go forward. Even if the Lakeview and Madras projects would open in 2003-05, there would have still been a shortage of minimum level beds throughout the 2003-05 biennium.

Prison population is expected to exceed 15,000 by July 2010 under current law. This will require additional capacity through construction, rental beds in local jails or out-of-state, or policy changes to stem the growth of the prison population. Before the construction delays incorporated into the Governor's budget, DOC had planned to expand capacity through construction in Lakeview (400 minimum security), Madras (432 minimum and 1,240 medium), Junction City (400 minimum), and White City (400 minimum) by the end of 2010.

DOC has depended on the use of temporary or emergency beds to meet their capacity needs. During the 2001-03 biennium, up to 586 temporary beds were used throughout the system including the Mill Creek, Oregon State Penitentiary, Santiam, and Shutter Creek facilities. In some cases these temporary beds have been in use for many years. These beds are generally additional beds in dormitory-like settings in minimum security facilities or an additional bed in what had been single bed cells. DOC states that they have generally reached the limit both on dormitory style beds and on double occupancy cells in their system for the Governor's 2003-05 budget. As of February, 85% of the general population cells were double occupancy. All facilities except OSCI, Two Rivers, and Oregon State Penitentiary (OSP) were at 100% and all but OSP will be at or nearly at 100% in the Governor's budget. Structural issues prevent the use of the remaining single occupancy cells at OSP as double occupancy.

The Institutions budget includes Other Fund expenditure limitation for inmate work crews who work for various public and private entities. A 10 inmate work crew costs roughly $400 per day which the contracting entity is responsible for paying the entire amount. If there is not work, the crews are not sent out and security and other staff relating to the work crews are not hired. For 2001-03, approximately half of the DOC positions relating to work crews remained unfilled since there was insufficient contracts available to keep work crews busy. Entities contracting with DOC for work crews include state agencies such as the Departments of Parks and Recreation, Forestry, Administrative Services, and Human Services. Federal agencies contracting for work crews have included the Forest Service, the Post Office, and Bureau of Land Management. Other contracts include a wide range of local governments across the state and a variety of non-profit and for-profit organizations.

Governor's Budget

The 2003-05 Governor's budget for Institutions increases by $69.6 million General Fund or 17.2% ($73.5 million TF, 17.3%) from the 2001-03 budget passed by the 2001 Legislature. Much of this increase is due to employee compensation issues for the 3,165 positions that are part of this budget unit. This budget assumes the growth of 786 inmates between July 2003 and July 2005 as included in the October 2002 forecast as well as the rollup costs of increases in the prison population during the 2001-03 biennium. The Governor's budget does not address the capacity required for the over 250 in additional inmates projected in the March 2003 forecast. DOC will have to prepare a new population management plan during the legislative session to address the increases in the March 2003 forecast.

The Governor's budget saves an estimated $38 million GF and the need for over 400 positions by relying on over 400 new emergency beds and 100 rental beds in local jails (budgeted at a cost of $64.13 per day) instead of completing new facilities in Lakeview and Madras to meet the growing number of inmates. Emergency beds will be added at Columbia River, Eastern Oregon, Oregon State Correctional Institution, Oregon State Prison, Two Rivers, and Shutter Creek. In addition, permanent new capacity will be added with the opening of a new minimum security unit at Powder River (100 beds), intensive management units at Snake River (96 beds), and the final intake unit at Coffee Creek (53 beds).

This budget does not include funding for any inflation adjustment to recognize the potential increases in food, utilities, energy and other costs saving $2.3 million. The Governor used GF to backfill the one-time 2001-03 savings using additional federal State Criminal Alien Assistance Program (SCAAP) funds. After the Governor's budget was released, Congress reduced the amount of SCAAP funding available to states leaving an estimated $6 million hole in this budget. Other Fund limitation ($40,473) is added to address security review pay differentials but this budget does not include $762,000 representing the GF portion of this differential.

DOC – Community Corrections Grants

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	174,709,255	195,762,214	187,725,021	152,980,331
FTE	0.0	0.0	0.0	0.0

Program Description

This program provides Grant-in-Aid funding to 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 of offenders to be managed. Three groups are funded through this program:

- ***Felony Probation*** are those individuals who have been sentenced for a felony to probationary supervision instead of incarceration in a local or state correctional facility.

- ***Parole and Post-Prison Supervision*** are those individuals who have been incarcerated in a state correctional facility, are released, and then supervised in the community corrections system. Parole refers to individuals who committed their crime prior to November 1989 and post-prison supervision were sentenced under the sentencing guidelines.
- ***Local control*** are those individuals convicted for a felony and sentenced to incarceration of 12 months or less, revoked from felony community supervision and sentenced to 12 months or less incarceration, or sanctioned to less than 30 days for violating the terms of community supervision.

Revenue Sources and Relationships

This budget unit is entirely supported by the General Fund. For 2001-03, it is anticipated that 26% of the amount distributed to counties will be used for felony probation, 27% will be used for parole and post-prison supervision, and the remaining 47% will be used for the local control population. This is based on the population forecast, but counties may spend it in another distribution based on local factors. Counties also contribute to the community corrections system varying from little or no local contribution for 12 counties estimated in 2001-03 to over 40% for Multnomah County. Statewide, local contributions are estimated to represent roughly 25% of the total funding for the community corrections system.

Budget Environment

The Community Corrections Grants budget is primarily driven by the local offender population forecast issued by the Office of Economic Analysis (DAS) which forecasts the number of offenders on parole, probation, and post-prison supervision. The most recent forecast (March 2003) shows a decrease in the number of offenders in the system from the previous October 2002 forecast as shown in the table below.

Community Corrections Forecast

Comparison of October 02 and March 03 Forecasts

	Felony Probation		Parole/Post- Prison Supervision		Local Control	
	Oct 02	March 03	Oct 02	March 03	Oct 02	March 03
July 2002*	18,588	18,588	11,162	11,162	1,660	1,660
July 2003	18,851	18,119	11,308	11,245	1,666	1,222
July 2004	18,909	18,883	11,526	11,207	1,702	1,668
July 2005	19,095	18,826	11,819	11,547	1,737	1,738
July 2006	19,346	18,916	12,187	11,826	1,770	1,785
July 2007	19,626	19,117	12,544	12,186	1,800	1,827
July 2008	19,942	19,421	12,889	12,594	1,830	1,866
July 2009	20,275	19,746	13,180	12,931	1,858	1,903
July 2010	20,586	20,007	13,431	13,234	1,886	1,935

*July 2002 actual and all other dates are estimates

The Governor's budget is based on the October 2002 forecast and the legislative budget will be based on the March 2003 forecast. There will be savings in all three groups from the Governor's budget including the more expensive local control offender group.

Funding for Community Corrections grants has increased from one biennium to another based on inflation and projected number of offenders supervised or incarcerated at the county level. The exception to this was the 1999-01 biennium. When faced by considerable concern among several counties as to the adequacy of state funding for management of SB 1145 offenders, the 1999 Legislature re-established the baseline funding at a higher level. As a result, the daily rates increased from $67.62 per day for the local control offenders in jail component to $76.57 per day and the $7.28 per day rate for the remaining offenders under supervision increased to $19.04 per day. Community corrections grants in future biennia would be increased from the newly established rates according to the current service level provisions in statute. These funds are allocated to individual counties through a capitation model implemented in 2001-03 based on the number of offenders per county derived from a caseload trend analysis.

It has been the practice to not adjust the community corrections grants as the forecasts change during a biennium. The grant is based on the forecast used for the budget adopted at the end of the regular legislative session. For 2001-03, the updated forecasts during the biennium demonstrated an overall decline in the community corrections population. If the grants had been changed to reflect the October 2002 forecast, the grants would have been reduced by roughly $11 million during the 2001-03 biennium. This estimate is before factoring any budget cuts due to changes in the 2002 special sessions.

State law provides for counties to "opt out" from the community corrections system and return responsibilities to DOC. This may happen when funding for community corrections does not receive an increase equal to or more than the inflation increase for the DOC "Current Service Level" budget. Counties must give notice to

DOC at least 180 days prior to opting out. As of April 1, 2003, one county has formally taken action to opt out in response to the reductions taken during the 2002 special sessions. Other counties may also decide to opt out of the program.

The state has provided funding to build local facilities to incarcerate/treat offenders. To date, 1,269 beds have been built with state assistance with another 200 beds transferred to Clackamas County from the former DOC intake facility. Another 203 beds are in line for construction in Multnomah, Klamath/Lake, and Clatsop counties. This capacity is equal to or close to the amount required to incarcerate 100% of the local control population which has ranged between 1,630 and 1,975 since 1998. Overall, there is presently excess jail capacity primarily due to local funding constraints. DOC is examining the potential of renting this capacity to fill their needs over the next few years instead of building additional prison capacity.

DOC was directed by the 2001 Legislature to examine the effectiveness of community corrections programs including finding out more about county by county practices, sharing best practices, examining national literature on the subject, developing performance measures for counties to meet, and reviewing the allocation formula to see if there should be incentives in the formula to encourage more effective sanctions. What DOC found was that the reconviction rate is higher following more expensive jail sanctions than other community-based sanctions. The national studies showed treatment and rehabilitation were more likely to be successful than surveillance and enforcement. County by county data demonstrated wide variance between use of jail time and other sanction alternatives. Unless there are significant differences in the individuals under supervision between counties, there is likely some savings for those counties that have high use of jail time.

Reductions in other budgets have a direct impact on the community corrections system. For example, counties depend on local alcohol and drug programs to provide treatment to the community corrections population. Over 75% of this population have alcohol and/or drug issues with 50% experiencing serious issues. The reductions made to state funding for local alcohol and drug treatment programs during 2002 are resulting in fewer community corrections offenders receiving treatment. Over time this will likely lead to increased recidivism rates since these problems are directly related to their criminality.

Governor's Budget

The 2003-05 Governor's budget for Community Corrections grants to counties is reduced by $42.8 million General Fund or 21.9% from the 2001-03 budget passed by the 2001 Legislature. This generally reflects the rollup of the cuts made in 2002 to address the state-wide revenue shortfalls. In addition, the budget does not include an adjustment for inflation ($6.3 million GF). This represents the most significant reduction in the DOC budget and may lead to further "opting out" of the community corrections system by counties as noted above. Discussions are underway between state and county corrections staff to identify policy changes to adjust to the reduced resources. Options include reducing the number of supervised offenders through the use of single sanctions and eliminating supervision of some offenders. Any major policy change will likely take changes in law. The Governor's budget was adjusted downward by $4.6 million GF reflecting the October 2002 forecast of this population. The Legislature will be able to make further adjustments in this budget to reflect the more recent March 2003 forecast population estimates.

DOC – Correctional Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	87,763,672	101,931,487	103,327,986	125,469,724
Other Funds	7,462,063	8,568,376	8,568,376	8,903,891
Federal Funds	0	0	752,980	1,247,020
Total	**95,225,735**	**110,499,863**	**112,649,342**	**135,620,635**
FTE	373.34	413.66	401.54	436.58

Program Description

This division provides various services to incarcerated inmates in DOC facilities. These services are listed along with their budget amounts for three biennia in the following table. These services are provided by a mixture of DOC staff and contractors. For example, many of the education services are provided by community college staff.

Program Area	1999-01	2001-03 Through Nov. 02	2003-05 Governor's Budget
Health Services	45,609,313	51,599,297	63,686,874
Health Services Paid in Admin	(1,648,546)		
Pharmacy Services	10,526,702	13,364,154	17,450,849
Education	19,746,899	18,395,832	21,321,044
Mental Health	8,841,841	10,900,717	14,980,175
Alcohol & Drug	6,821,317	7,093,751	8,163,466
Religious	2,541,399	3,489,572	4,185,005
Intake & Assessment	1,906,936	2,962,347	2,886,424
Program Administration	879,874	2,368,042	2,946,798

Revenue Sources and Relationships

Correctional Programs are expected to receive over $8.9 million in Other Funds for 2003-05 from a variety of sources including:

- Revenue from services provided by inmates in educational programs such as automotive and computer repair ($1.0 million). In addition, there is revenue generated by the sale of products made by inmates in educational programs ($35,000);
- Inmate welfare funds for the alcohol and drug programs and the education program derived from revenue from coin operated telephones, canteen profits, vending machines, meal ticket sales and inmate room and board reimbursements ($5.5 million);
- Resources transferred in for alcohol and drug programs ($1.2 million) from a federal grant administered by the State Police. It is scheduled to end during the 2003-05 biennium; and
- Resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($.5 million).

Budget Environment

The Correctional Programs' budget is driven by the number of inmates, their health status, constitutionally and statutorily required programs and services, and other offender treatment or vocational training needs. Increased prison populations and the phasing in of new facilities have placed higher demands on the various programs (health services, mental health, education, social skills, cognitive skills, sex offender assessment, alcohol and drug treatment, religious services), thus requiring more staff and General Fund support. The Department has made changes to deliver services in a more coordinated and streamlined manner to significantly reduce these costs. It has placed inmates so that it does not have to duplicate all program services at all locations. The Department is also interested in continuing to expand transitional services; developing standard criteria for participation in programs; and increasing local access to offender assessment, treatment, and release plan information.

The programs included in this budget area are designed to meet specific inmate needs, often directly related to their criminality (e.g., alcohol/drug abuse leading to the need to commit theft to pay for drugs). Over 75% of inmates have alcohol and drug problems, 44% have no high school diploma or GED, over 20% function below the literacy level, 53% have never worked in a legitimate job, 20% are mentally ill, and 3% are developmentally disabled. The DOC population generally matches the profile for these issues nationwide.

Almost all of the services provided in Correctional Programs must be provided at some level based on federal and/or state constitutional requirements. The federal constitution guarantees that sufficient health, mental health, and pharmacy services be provided under the 8Th amendment (Cruel and Unusual Punishment Clause). Failure to do so in other states has led to significant increases in state budgets under federal court orders. The amount of funding required to meet these federal or state requirements is not a clear cut amount, but there is some funding in the budget over and above the amount required. Regardless of these services' mandated nature, they are generally designed to address the needs of prisoners when they are released. Education, training, and alcohol/drug services are used to meet the requirements of the 1994 Ballot Measure 17 (Article 1, section 41 of the Oregon Constitution).

Health and Pharmacy costs make up the majority of the Correctional Programs budget. These costs are under the same pressure that other health related costs are experiencing including the Oregon Health Plan and private insurance. DOC has undertaken or plans to undertake a number of actions to reduce or at least limit the cost of these programs including:

- Establishing a treatment oversight committee consisting of doctors, nurse practitioners, and others to review non-emergency cases and recommend the cost effective treatment on an individual inmate level.
- Moving all inmates requiring dialysis to the Two Rivers Correctional Facility and providing dialysis on-site. This saves security costs by having not to guard a single inmate at an off-site location;
- Implementing a pharmaceutical formulary based on a set of guidelines that provide the most appropriate and least cost alternative;
- Contracting with ODS for negotiating provider contracts, reviewing claims, managing utilization and providing detailed reports to provide better management information. DOC is able to use the market power and the expertise of ODS in lowering the medical costs provided off-site; and
- Exploring the cost and savings of creating a optometry service "in-house" for eyewear/lens fabrication. This could meet the need to reduce costs as well as provide another training program for inmates.

Governor's Budget

The 2003-05 Governor's budget for Correctional Programs increases by $23.6 million GF or 23.2% ($25.1 million TF, 22.7%) compared to the 2001-03 budget passed by the 2001 Legislature. The major increases in this budget unit include employee compensation issues ($14 million GF) and the effect of the increasing prison population. This budget reflects the rollup impact of reductions taken in the 2002 special sessions including $3.7 million GF (13 positions) in program reductions in work-based training, cognitive, and transitional services; and $4.0 million GF in health service savings. The proposed use of emergency beds and local jail rental beds instead of building new capacity provides savings of $2.3 million GF and reduces the need for 32 positions. There is no adjustment for inflation in this budget, saving an estimated $6.8 million. Unless DOC can continue the cost savings in health services and pharmacy costs realized in 2001-03, there will be a significant hole in this budget due to anticipated cost increases in these services. There is a $1.2 million increase in Federal Funds limitation for the last two years of a three year federal grant for providing assistance to violent offenders moving back into the community.

DOC – Central Support/Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	40,130,546	47,511,155	50,174,240	58,483,903
Other Funds	3,906,229	7,881,328	8,069,889	8,305,330
Total	**44,036,775**	**55,392,483**	**58,244,129**	**66,789,233**
FTE	316.82	336.24	330.44	354.00

Program Description

The Central Support/Operations unit includes the following units:

- ***Business and Finance*** provides budget management, fiscal services, construction monitoring, facility maintenance, warehouse and distribution operations, and support services for the entire Department.
- ***Human Resources*** provides agency wide services including personnel, recruitment, employee development, training, employee safety, risk management, and payroll services.
- ***Information Systems and Services*** provides agency wide functions including operations and user support, applications development, systems maintenance, technical support, and research/evaluation. It is responsible for operating a number of systems including the offender database and tracking system used to manage the state's prisons and community corrections; the Corrections Information System; fiscal systems; and automated office systems.

The following table breaks the Governor's budget out by program area.

Program Area	General Fund	Other Funds	Federal Funds	Total Funds	FTE
Business & Finance	16,427,961	8,305,330	-	24,733,291	142.00
Information Systems	32,366,812	-		32,366,812	156.50
Human Resources	9,689,130	-	-	9,689,130	55.50
Total	$ 58,483,903	$ 8,305,330	$ -	$ 66,789,233	354.00

Revenue Sources and Relationships

The $8.3 million Other Funds expended in this program is derived from the sale of certificates of participation and is used for pre-construction activities, infrastructure planning, the bid/solicitation process, design, construction supervision, and community development.

Budget Environment

The facilities staff has spent past biennia focusing on the construction of new facilities. Depending on the decisions regarding future construction projects in the development of the 2003-05 budget, their workload could decrease. There is still significant workload relating to the older facilities that require maintenance including prioritizing projects with a minimal budget for improvements. The staff continues to do long range planning for facility maintenance and is standardizing procedures for repairs making it more effective.

The operations of the Distribution Center in Salem continue to make food and other product distribution more efficient by allowing the Department to take advantage of economies of scale, increase purchasing power, maximize volume discounts, provide adequate space for spot purchases, and reduce institutional stockpiling of resources. The savings generated by this operation and the spot food buying have been a major factor in solving rebalance issues during the 2001-03 biennium. The January/February 2002 rebalance included $4.6 million GF savings in this area. Limited services are also provided to the Oregon Youth Authority from the Distribution Center.

During the first 18 months of 2001-03, over 600 new employees were recruited and hired which continued a trend since 1995 as DOC has opened or expanded facilities. This number is expected to decrease some during 2003-05 if no new facilities are opened as originally planned (e.g., Madras and Lakeview). There is still ongoing turnover given the size of the agency, which is expected to increase for the remainder of 2001-03 and continue into 2003-05 as more state employees make decisions to retire based on potential changes to PERS. Existing recruitment resources are being directed toward those positions that have been hard to fill in the past including nurses, doctors, and dentists. Other major challenges for this division during 2003-05 include dealing with the potential for large layoffs during the budget crisis, responding to retirements, and succession planning as key managers decide to retire.

Information Systems and Services has responsibility to keep existing automated systems running efficiently for approximately 5,000 users in prisons and other DOC sites across the state, and in the 36 county parole/probation programs. For larger counties, DOC maintains the connection to the state-wide system while in smaller counties DOC provides a greater level of service including desktop support. There have been reductions in this technical support staff in 2001-03 and this has reduced the level of service to both DOC and county programs. This unit is completing the major development project for 2001-03, the Transition Automation Project (TAP), which is designed to automate the individualized offender based corrections plan and track an offender's progress in the plan. There are no major projects planned for 2003-05 at this time. DOC will have to be part of any future work on the public safety system wide Criminal Justice Information System (CJIS).

Governor's Budget

The 2003-05 Governor's budget Central Support and Operations reflects a $11 million GF increase or 23.2% ($11.4 million TF, 20.6%) from the 2001-03 budget passed by the 2001 Legislature. One major factor for this is the net $4.6 million GF increase resulting from centralizing the telecommunications function into this budget unit and decentralizing Attorney General costs into individual budget units. Employee compensation issues including increases in PERS and rollup of 2001-03 salary increases add another $8 million GF for the 358 positions in this budget unit. The net result of using emergency and rental beds instead or proceeding with further construction of new facilities saves $8.3 million GF and reduces the need for 46 positions in this budget unit. Funding for an inflation adjustment is also not included, saving an estimated $0.2 million GF.

DOC – Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	32,976,844	28,502,195	26,540,245	33,905,071
Other Funds	1,781,036	3,697,046	3,697,046	1,365,094
Total	**34,757,880**	**32,199,241**	**32,237,291**	**35,270,165**
FTE	91.45	83.00	66.50	77.38

Program Description

Administration includes the Office of the Director, Public Affairs, Inspectors, Offender Information and Sentence Calculation (Records Management), and administrative staff for the Community Corrections Program. This unit provides overall direction and administration, oversight and investigative support, internal audits, hearings and rules coordination, and public information.

The Community Corrections administration works in partnership with counties in administering the community corrections system, and is charged with developing standards and operating a statewide evaluation system to monitor the effectiveness of the system. This staff is also responsible for interstate compact activities, development of release plans for all prisoners, and compliance inspections at local jail facilities. The funding for the Community Corrections grants to counties is in another section of the DOC budget.

Revenue Sources and Relationships

Administration costs are primarily supported by General Fund. In the past, Other Funds revenue from COPs sold to pay for facility construction was used to pay for COP issuance/finance costs ($4.4 million in 2001-03). The Governor's budget does not assume any new COPs for DOC in 2003-05 for construction and issuance costs. Other Funds revenue in the amount of $127,405 is for a position to manage the telephone contract department-wide. The Victim Notification System is funded with $571,180 from a transfer from the Department of Justice. The other major Other Fund revenue source is the Inmate Welfare Fund ($666,509) used for release subsidies for "gate money" and local supervision.

Budget Environment

Three reorganization efforts affect the size of this budget. In the past all of the Attorney General costs for the Department have been included in Administration, but in the Governor's budget the expenditures ($1,025,611 GF) have been transferred to the units which require the services to increase accountability for AG services. The 2001 Legislature instructed DOC to centralize telephone and telecommunications functions and the Governor's budget reflects this change ($1,759,161 GF). To better utilize counseling resources in the institutions, the release counselors, who had been budgeted in this unit, are transferred to the Institutions unit ($1,844,272 GF).

As inmate population grows, there is an increase in need for investigations, searches, work site monitoring, drug testing, internal audits, and hearings. Opportunities for contraband to get into institutions will also increase since more non-DOC staff will have contact with inmates through work crews, prison industries, public/private partnerships, and contract services. To better utilize limited Special Investigations Unit resources, more cases are being referred back to functional units for further investigation.

Governor's Budget

The 2001-03 Governor's budget grows by $5.4 million GF or 18.9% ($3.1 million TF, 8.8%) from the 2001-03 budget passed by the 2001 Legislature. Employee compensation issues including PERS and rollup of 2001-03 salary increases total $1.8 million GF for the 80 positions in this budget unit. This budget does include $0.7 million GF savings resulting from the redesign of the Inspections staff and reductions made during the 2002 special sessions. Increases in state government service charges of $7.1 million are offset in part by a $5.0 million GF decrease in Attorney General costs and telecommunications costs that are transferred to other budget units in DOC to increase accountability. The savings due to using emergency beds and rental beds instead of continuing new construction to meet rising prison population projections saves $0.8 million GF. Over $450,000 is saved by reducing overhead costs and not including an inflation adjustment.

DOC – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	73,249,483	78,161,803	27,978,149	107,471,051
Other Funds	106,290,915	19,118,136	61,092,941	0
Nonlimited	0	0	248,500,000	0
Total	**179,540,398**	**97,279,939**	**337,571,090**	**107,471,051**
FTE	0.00	0.00	0.00	0.00

Program Description

Debt service is the obligation to repay the principle and interest costs of Certificates of Participation (COPs) that are issued to finance the costs of construction and improvement of correctional facilities. Beginning with the construction of the Snake River Correctional Facility in Ontario in the early 1990s, DOC has used COPs to finance the major expansion of the prison system. The proceeds from COPs are also used for the construction of local jail capacity related to the SB 1145 population, purchase of property, design costs, siting costs, major improvements or upgrades of existing facilities, and the staff costs associated with the construction and improvement of facilities.

Revenue Sources and Relationships

For 2003-05 debt service is totally paid out of General Fund resources for DOC. In 2001-03, Other Funds was used to pay for over half of the debt service. During 2001-03, DOC was able to offset General Fund need for debt service by using construction savings at Coffee Creek and other construction projects. Since all major construction projects are completed, it unlikely this can be repeated in 2003-05. The Non-limited amount in 2001-03 is from the refinancing of previously issued COP sales.

Budget Environment

The 2001-03 budget shortfalls led DOC and DAS to decide to delay the sale of COPs scheduled for October 2002 until March 2003 for the construction of the Lakeview and Madras minimum security facilities as well as the expansion at Shutter Creek. In the final development of the Governor's budget, it was decided not to go forward with any of these projects at least through the end of 2003-05. This decision reduced the General Fund debt service needs anticipated for 2003-05 by over $10 million.

Governor's Budget

The 2001-03 Governor's budget for DOC debt service is $29.3 million GF or 37.5% larger than the 2001-03 budget passed by the 2001 Legislature. A portion of this increase is to backfill for the one-time use of Other Funds resources including construction savings in the 2001-03 legislatively adopted budget ($19.1 million GF). This practice was continued whenever possible during the 2002 special sessions and rebalances, and this budget reflects the backfilling necessary to have sufficient debt service to meet the obligation to pay for the COPs. New debt service resources of $7.5 million GF are included to pay for anticipated COP sale in March 2003 for the Multnomah County jail expansion and the "repayment" of $13.6 million loaned from the DOC operations budget to pay for the initial costs of the Lakeview and Madras sites. Since the Governor's budget was released, other resources were identified to "repay" the operations budget creating excess resources of almost $6 million GF in this budget that is available to the Legislature for other purposes.

DOC – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,448,923	2,030,272	2,030,272	2,101,332
Other Funds	584,691	0	0	0
Total	**4,033,614**	**2,030,272**	**2,030,272**	**2,101,332**
FTE	0.00	0.00	0.00	0.00

Program Description

These funds are used for deferred maintenance and asset protection projects. These projects must be less than $500,000 or they are categorized as capital construction.

Revenue Sources and Relationships

In 1999-01, Other Funds revenue for specific projects was derived from the sale of Certificates of Participation (COPs) and from the sale of inmate products and services. There are no Other Funds resources in this unit for 2001-03 or 2003-05.

Budget Environment

The Department owns approximately 300 buildings with over 4.5 million square feet of building space across the state. Much of this space is in newer facilities constructed over the past ten years but some of the buildings are up to 125 years old. A 1996 consultant's review indicated the facilities at that time had $63 million in known maintenance needs, of which over $46 million still remain. DOC uses a system of prioritizing needs where priority 1 protects health and safety, the environment, the integrity of the building's structural system and critical utility services. Priority 2 is for maintaining the roof and walls. Priority 3 is for maintaining mechanical, plumbing, and electrical systems and removing architectural barriers. Priority 4 is for repairing interior finishes and renovation for program changes. The ten year plan for these projects requires $9.2 million per biennium, significantly less than what has been budgeted.

The 2003 Legislature reduced the remaining available balance of capital improvement resources ($283,000 GF) from the 2001-03 budget as part of SB 5548 in March 2003. This delayed projects that were to be funded before the end of that biennium and could not start until later in the year due to weather conditions. Since no further resources are available in the Governor's 2001-03 budget, this will only further delay the long term completion of deferred maintenance needs facing DOC.

Governor's Budget

The 2003-05 Governor's budget for capital improvements grows by $71,060 GF from the 2001-03 budget adopted by the 2001-03 Legislature. This represents the 3.5% adjustment for inflation and is the only unit in the DOC budget that receives an adjustment for inflation.

DOC – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	2,227,000	2,227,000	0
Other Funds	165,061,354	92,302,038	92,302,038	0
Total	**165,061,354**	**94,529,038**	**94,529,038**	**0**
FTE	0.00	0.00	0.00	0.00

Program Description

This budget unit includes expenditure authority for acquisition or construction of any structure or group of structures; all land acquisitions; assessments; and improvements or additions to an existing structure, which are to be completed within a six-year period with an aggregate cost of $500,000 or more.

Budget Environment

The amount of capital construction is based on the Long-range Construction Plan as modified by the Prison Population Forecasts. For 2003-05, the original plan called for work to begin on a 400 bed men's minimum security facility in Junction City ($58.2 million) and a 1,300 bed medium security facility in Madras ($89.3 million). With the delay or cancellation of the first phase of the Madras and Lakeview facilities, these projects are further delayed and are not included in the 2003-05 capital construction budget. The most recent Prison Population Forecast (March 2003) demonstrates further growth for 2003-05 and further biennia. The prison population is expected to exceed 15,000 in 2012.

Governor's Budget

There is no budget for capital construction in the 2001-03 Governor's budget reflecting the decision to delay further new construction to meet the growing prison population forecasts. Prison population management plans prepared by DOC prior to the Governor's budget assumed new construction beginning in Junction City and Madras but this is indefinitely delayed.

Criminal Justice Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	14,391,596	19,791,212	17,527,954	14,797,005
Other Funds	45,259	71,253	71,253	83,440
Federal Funds	1,625,686	4,019,967	4,019,967	4,034,449
Total	**16,062,541**	**23,882,432**	**21,619,174**	**18,914,894**
FTE	11.38	12.50	12.50	10.41

Program Description

The Criminal Justice Commission (CJC) was created in 1995 replacing its predecessor, the Criminal Justice Council. Seven members are appointed by the Governor, subject to confirmation by the Senate and the other Commission members are Legislators. The Commission's primary purpose is to develop and maintain a state criminal justice policy and comprehensive long-range plan for a coordinated state criminal justice system. The Commission has two units:

- The ***Criminal Justice unit*** staffs and supports the Commission in its functions relating to the state criminal justice policy. This unit also assists the Commission in its responsibilities in administering the sentencing guidelines. Other duties include: (1) providing data and other information on criminal justice issues to Legislators, state and federal agencies and the public including the activities of the Statistical Analysis Center; (2) providing technical assistance to local public safety coordinating councils; (3) staffing the Forfeiture Oversight Advisory Committee; (4) administering the Law Enforcement Contacts Policy and Data Review Committee which reviews demographic data to ensure that law enforcement agencies perform their missions without inequitable or unlawful discrimination based on race, color, or national origin; and (5) coordinating the calculation of the fiscal impact of crime related legislation/ballot measures among state and local public safety agencies.
- The ***Juvenile Crime Prevention unit*** administers the county juvenile crime prevention grants directed at high-risk youth. SB 555 (1999) established these grants ($17.7 million General Fund at the beginning of the 2001-03 biennium) for local prevention and early intervention activities as well as the local grants administered by the Oregon Youth Authority for serving juveniles already in the system. This unit staffs the Juvenile Crime Prevention Advisory Committee (JCPAC) which reviews each of the local juvenile crime prevention plans that are required by statute. This unit also administers federal grants that augment the activities of the state-funded grants.

Revenue Sources and Relationships

The agency is supported mainly by General Fund. The Commission's primary Other Funds revenue is derived from forfeiture proceeds, which fund Asset Forfeiture Oversight Advisory Committee (AFOAC) activities and a portion of a position. The law requires local agencies to contribute 2.5% and state agencies 3% of net forfeiture proceeds to be deposited into the Asset Forfeiture Oversight Account. It is uncertain whether this revenue source will be able to continue to support this program. Actual collections are down to just over $20,000 so the program for 2003-05 will depend on a beginning balance ($57,469) to support most of the program. It is anticipated the beginning balance for the 2005-07 biennium will be under $5,000, so General Fund may be required in future biennia to continue the current level of resources for the program in 2003-05. Revenue could fall even further if reductions to the public safety system result in fewer drug prosecutions, a major source of forfeitures.

For 2003-05, $3.9 million in Federal Funds from the federal Office of Juvenile Justice and Delinquency Prevention is expected to fund grants to local government and Commission operations related to those grants. The agency also receives a $50,000 annual grant, through the federal Bureau of Justice Statistics, for support of its Statistical Analysis Center. This grant requires a state match.

Budget Environment

In the past, the Commission has not fully carried out its primary purpose -- to develop and maintain a statewide coordinated criminal justice policy and long-range plan. Additional responsibilities and limited staff kept the Commission from spending sufficient resources for this function. A Public Safety Plan was presented to the 2001 Legislature, but some felt that it did not go far enough in meeting legislative expectations. The 2001 Legislature funded an additional position for the Commission to specifically support this function. At the same time the Commission was directed by budget note to make every effort to develop recommendations for consideration in building the Governor's 2003-05 budget using the 2001 report as the foundation. It was expected the 2003 Legislature would use these recommendations in reviewing policies and budgets for the public safety agencies. Hiring this position was delayed as a result of the state budget shortfall and is not to be hired until 2003. This means that the Commission has not been able to meet the expectations of the Legislature.

The Commission's largest program is the juvenile crime prevention grants which are used for crime prevention-related services. Prevention, in terms of these grants, generally means services which reduce risk factors that lead to crime committed by youth. Basic services and diversion related funds are part of the budget of the Oregon Youth Authority. The grants are distributed based on each county's juvenile population (0-17). There is a minimum grant of $50,000 per biennium for smaller counties. Major uses of these CJC grants include:

- school related services, including after-school programs, court school, truancy, and tutoring;
- family-based services, including the Family Function Therapy program;
- alcohol and drug programs, including assessment, treatment, and after-care services;
- mental health services, including multi-systemic therapy, treatment foster care, and evaluations; and
- flexible and wrap-around services.

As part of the overall function of this program, the Juvenile Crime Prevention Advisory Committee (JCPAC), with the assistance of Commission staff and other agency staff, review local plans which describe the use of the grant funds as well as the local actions in the area of crime prevention and direct services. There has been concern in the past about the interrelationship between local juvenile crime prevention planning and other local planning relating to children. A Joint Legislative Audit Committee report found that coordinated planning could be improved at the local level. A 2001 session budget note directed the Commission and JCPAC to improve planning coordination between the juvenile crime prevention grants and programs of the Commission on Children and Families. Commission staff believe that this direction was completed through the participation of local staff in the SB 555 planning process. In addition, the budget note instructed the Commission to review the definition of prevention. The result was a definition which includes services and activities designed to reduce risk factors in both offender and non-offender youth. The budget note also instructed the Commission to use a comprehensive evaluation system in examining the effectiveness of the grants and to measure the extent risk factors change as a result of the services funded by the juvenile crime prevention grants. The Commission is to provide a progress report to the 2003 Joint Committee on Ways and Means.

A total of $1.6 million General Fund specified reductions were made during 2002 in response to the state budget shortfall. The largest reduction was a $1 million reduction in the second year juvenile crime prevention grants made in fifth Special Session. This followed earlier grant reductions in the second Special Session where prevention grants to tribal governments were reduced by $225,000 and grants to all but the smallest counties were cut by one percent ($120,824). Other reductions included a $50,000 to the Law Enforcement Contacts program (profiling), and delays in hiring positions and services and supplies cuts ($208,000). The Commission's share of the HB 5100 reductions tied to the tax measure vote total $650,000 which will almost entirely be taken as a reduction to juvenile crime prevention grants. To meet their share of the $112 million December 2002 revenue forecast shortfall, the Commission will further reduce the juvenile crime prevention grants by another $160,000 and keep positions vacant which will impact training relating to sentencing guidelines and on-site monitoring of the prevention grants.

Governor's Budget

The Commission's $18.9 million Total Funds ($14.8 million GF) Governor's budget for 2003-05 is 20.8% less than the budget adopted by the 2001 Legislature for the 2001-03 biennium. General Fund resources are 25.2% less in this Governor's budget. Federal and Other Funds grow slightly between the two periods.

Major features of the Governor's budget include:

- Funding for local crime prevention activities through the Juvenile Crime Prevention Grants is reduced by $4.9 million General Fund to $13 million, or by almost 28%. This decrease reflects the full 24 month impact of the specified and unspecified cuts made to this program in the fifth Special Session (HB 5100).
- Funding for the federal funded grants is expected to remain approximately the same at $3.5 million.
- An administrative support position and related services and supplies for the juvenile crime prevention program are eliminated saving over $165,000 GF.

- A program technician position and service and supplies which is used to support the general operations of the Commission, is cut as part of the rollup of the reductions tied to HB 5100 ($252,964 GF). This will staff support for public safety related research and sentencing guidelines.
- Sufficient resources ($8,098 GF) are added to the Commission's budget to meet actual costs of rent for the Commission.

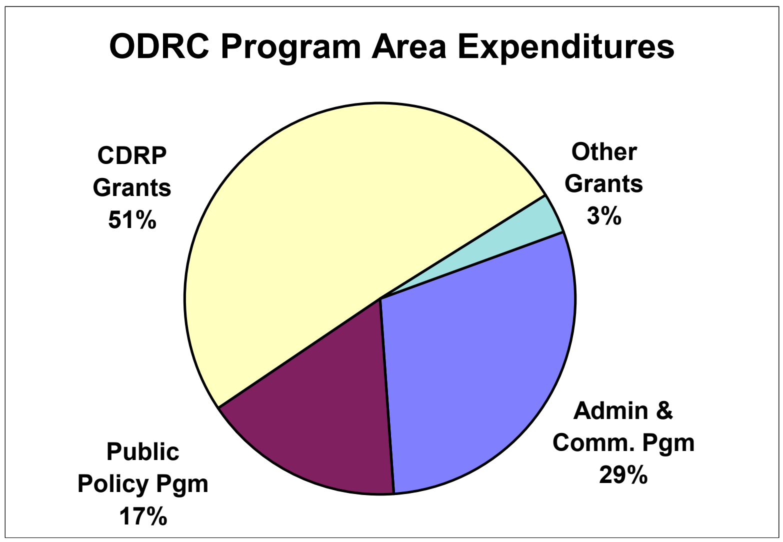
Dispute Resolution Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	134,984	119,284	0	0
Other Funds	1,803,583	2,359,219	2,584,219	2,663,152
Total	**1,938,567**	**2,478,503**	**2,584,219**	**2,663,152**
FTE	4.40	5.00	5.30	6.50

Program Description

The mission of the Oregon Dispute Resolution Commission (ODRC) is to support the effective use of conciliation, negotiation, mediation, and other collaborative dispute resolution and problem solving processes. The Commission is a seven-member body appointed by the Governor and confirmed by the Senate. The ODRC has two major program areas: Community Dispute Resolution and Public Policy Dispute Resolution.

The Community Dispute Resolution Program is 51% of expenditures. The Commission develops and maintains community dispute resolution services throughout the state and distributes funds received from a surcharge on civil court filings to support 25 community dispute resolution programs (CDRP's) around the state. These programs offer services on a range of issues, from neighborhood disputes to victim-offender mediation. The Commission works with many partners and stakeholders to ensure that the programs are operating effectively, and provides technical assistance, training, and oversight.



The Public Policy Dispute Resolution Program is 17% of expenditures, and is operated under the direction of the Governor's Dispute Resolution Steering Committee. The program is supported by funds received from a surcharge on civil court filing fees. This program is responsible for establishing an integrated and coordinated program to help state agencies and the public resolve public policy issues through the use of collaborative problem solving techniques. The goals of the program include: 1) decrease the cost of dispute resolution; 2) increase the efficient resolution of disputes and the quality of the agreements reached; and 3) increase the satisfaction of users with the processes and outcomes of these processes. The 2001 Legislature restructured the program to allocate all public policy program funds through the Commission and added 2.0 FTE to work cooperatively with the Department of Justice, the Department of Administrative Services and the Governor's Office to manage the program. The Legislature eliminated the General Fund support to the program, but provided a one-time General Fund appropriation to assist with the development of a revised structure for delivering these services. These funds were eliminated as part of 2001-03 interim special session adjustments.

Administration for the ODRC and the Community Development Program, including program services, is 29% of expenditures.

The Dispute Resolution Commission has set three primary goals for the 2003-05 biennium:

- Community-based dispute resolution programs are available to all Oregonians.
- Collaborative processes are successful.
- Alternative Dispute Resolution (ADR) is integrated into state government, increasing dispute resolution efficiency.

Revenue Sources and Relationships

The ODRC is funded through a surcharge on the court filing fees for certain civil matters. The 1997 Legislature increased fees for small claims court cases, probate fees and the existing surcharge on circuit court filing fees. Based on the current surcharge rate, approximately $2.3 million will be collected in 2001-03. Fifty percent of the filing fee revenue is reserved for grants to local counties for community dispute resolution program services. Thirty percent is available to the Commission for program management. The remaining 20% is used for the Public Policy Dispute Resolution Program to support state agency use of alternate means of dispute resolution.

After three years, any county funds that are not expended for CDRP services can revert to ODRC to be used for other purposes. In 2003-05, $25,311 in accumulated and unspent revenues will become available for ODRC programs. Since the goal is to have dispute resolution conducted on a local basis, the money is targeted for unserved counties to develop programs and centers so they can receive services and grant funding in the future, and can also be used to assist existing programs with special projects or needs.

Budget Environment

The 1997 Legislature directed the agency to reduce its dependence upon the General Fund, after court filing fees were increased to provide additional Other Funds revenues. The 1999 Legislature shifted all services and supplies expenditures from the General Fund to Other Funds. The 1999 Legislature also directed the Commission to document: the number and types of cases encountered in the public policy program; how the cases were resolved; the timelines of the cases from inception to resolution; and the estimated savings of mediating the cases versus having them resolved by litigation. This information was provided to the Joint Committee on Ways and Means during the 2001 legislative session.

The 2001 Legislature restructured the public policy dispute resolution program. The filing fee surcharge revenue that supports the program is no longer transferred to the Department of Administrative Services to support "cluster coordinator" positions in four separate state agencies. Instead, the Commission was directed to work with its partners to develop a long-term plan to manage the program. Funding for the "cluster coordinator" positions was limited, and the Commission was given authority to determine the best method to deliver these services. Two positions were established to support the program. Based on prior legislative direction, the General Fund and 1.0 FTE that supported the public policy dispute resolution program was eliminated.

The 2001 Legislature, by budget note, directed the Commission to:

- Work with the Joint Interim Judiciary Committee on fees or other contributions to support community dispute resolution programs, based on concerns that community dispute resolution programs do not have processes to obtain appropriate contributions to support their costs. A report was made to the December 2002 meeting of the Committee.
- Develop a work plan for the interim delivery of public policy dispute resolution services and to present the plan to the Emergency Board by November 2001. A preliminary plan was submitted in November 2001. The Commission was directed to return to the Emergency Board with a plan that did not rely on General Fund support. The revised plan was submitted in November 2002.
- Develop a permanent structure to deliver public policy dispute resolution services, and report to the Emergency Board prior to the next legislative session. This report was combined with the report on the interim delivery of public policy dispute resolution services.

The Legislature directed the Commission to ensure that there is a process to monitor and report on the effectiveness of dispute resolution services. The Commission will also need to develop a plan to deal with the potential shortfall in revenue to support dispute resolution programs in the 2003-05 biennium. The Judicial Department is reducing access to adjudication services for civil matters, as part of its budget reduction plan. This has the potential to affect the filing fees collected, if participants choose not to file civil cases due to the extended period of inaction. Filing fee surcharge revenue may not be sufficient to maintain current services.

Governor's Budget

The Governor's budget is a net increase of $78,933 Other Funds and 1.2 FTE above the legislatively approved budget. this adjustment includes $102,689 in new expenditures, offset by $23,756 in program adjustments. This includes the phase out of 2001-03 Other Funds expenditure limitation established for a Hewlett Foundation grant to increase Hispanic/Latino participation in appropriate dispute resolution programs.

The Governor's budget includes a policy option package that increases the ODRC staffing by one FTE. The position is currently located in the Department of Land Conservation and Development (DLCD), and is funded through an intergovernmental agreement using ODRC filing fee surcharge revenue. The DLCD position authority will be eliminated, and position authority will be created in ODRC as a result of this package.

The Governor's budget also includes another policy option package which includes reclassifying the Community Program Manager from $3,208 per month to $3,832 per month and increasing the FTE from 0.5 to 1.0 FTE. The cost of this adjustment is $68,728 for the biennium. Related services and supplies are increased by $8,650. The remainder of the package includes the expenditure of $25,311 in unspent filing fee revenues that will be used for CDRP-related services.

District Attorneys and Their Deputies – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	9,536,890	9,563,857	9,401,648	9,479,567
FTE	36.00	36.00	36.00	36.00

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

- ***District attorneys (DAs)*** are state employees who are locally elected. There are four different pay groups based on the size of the county. The state paid DAs in the smallest counties were paid $53,652 annually in 2002 and those in the five largest counties were paid $90,672. Counties have the option, which many exercise, to pay an additional salary supplement and provide other benefits (e.g., automobile and additional insurance).
- The State provides limited support for ***deputy district attorneys*** based on an amount set out in the funding bill. For the 2001-03 biennium, $1,375 is provided each quarter for each of the first three deputy DAs in a county. The remaining funding is distributed proportionally based on the number of deputy DAs and the amount of funding left. There are approximately 320 deputy DAs in the State, ranging from no deputies in some smaller counties to 75 in Multnomah County (late 2002). The funding provided by the State generally represents a small share of funding for deputies for most counties.
- The state assists counties for a portion of the statutorily mandated ***witness fee costs*** for trials and grand jury hearings in criminal cases. Counties are statutorily required to pay witnesses $5 per day and mileage (eight cents per mile). State funding is distributed as follows: $999.50 per county annually with the remaining funding distributed proportionally based on the number of deputy DAs for each county.

This budget also includes funding for administrative costs for mandated central services costs (e.g., tort liability) and for the purchase of one copy of Appellate court legal opinions for each DA office. The Department of Justice (DOJ) provides at no charge administrative and financial services on behalf of DAs.

Budget by Program Area

	DA Salaries	Deputy Supplements	Witness Fees	Administration	Total
1999-01 Actuals	6,528,458	1,857,311	569,888	581,233	9,536,890
2001-03 Approved	6,867,696	1,834,957	311,163	387,832	9,401,648
2003-05 Governor's Budget	7,460,817	673,147	0	1,345,603	9,479,567

Revenue Sources and Relationships

This is entirely a General Fund budget at the state level. The state's portion of the total DA budget is small. The most recent county DA office survey data compiled in 2000 shows that state funds cover between 2% (Multnomah) and 70% (Wheeler) of county prosecution budgets. Overall, counties fund 82% of the total prosecution expenses of the offices of district attorneys; the state funds 9%; and other sources provide the remaining 9%.

Budget Environment

The state's share of funding the prosecution expenses of DA offices has fallen significantly over the past 25 years based on data collected as part of the Association of Oregon Counties (AOC), District Attorneys Association, and Department of Justice (DOJ) report to the 2001 Legislature. In 1975, the state portion represented 19% of the total prosecution expenses (state and county) of $6.4 million for all DA offices. By 1993, the state share had dropped to 14% for total expenses of $34 million statewide and by 2000 the state share was 9% for the $57 million total statewide expenses.

In 2001, a majority of counties (23 out of 36) provided an annual supplement to the salary paid by the state ranging from $5,000 to $22,000. In addition, some counties provide additional benefits such as cars, contributions to deferred compensation, payment of Bar dues, and additional insurance. In many cases, the DAs provide additional services for the county including civil duties and legal advisor for some county functions. In reviewing data from a comparison of Oregon DA salaries with those from four neighboring states, excluding Oregon's three part-time prosecutors, the low end of Oregon's compensation is higher than every state of comparable size and about the same as California. At the high end, only Idaho pays a lower salary than Oregon. The highest salaries paid by California, Washington, and Nevada all exceed $100,000.

The following table shows changes in case filings for six years. The number of felony filings is growing as a share of all criminal filings from just over 32% in 1996 to almost 38% in 2001. The number of arrests has fallen over the past few years. Overall, the total number of arrests for person, property, behavior, and index crimes peaked in 1997 at almost 179,000 statewide and has fallen to just over 169,000 in 2001. DA workloads are determined in large part by the number, complexity, and type of criminal arrests that occur.

Fillings	1996	1997	1998	1999	2000	2001
Misdemeanor	64,384	65,332	64,677	62,833	65,486	62,803
Felony	30,797	33,719	39,589	37,470	35,749	37,646
Total	**95,181**	**99,051**	**104,266**	**100,303**	**101,265**	**100,449**

While the number of criminal filings or number of arrests are both indicators of DA workload, they do not capture all of the potential workload. A significant part of the DA workload is not linked to arrests. In the past, DAs estimate that as much as one-third of the regular statewide workload corresponded to pre-arrest case reviews, where DAs and deputies are asked to assess the sufficiency of evidence collected and provide advice on the need for additional investigation, search warrants, or involvement of task force experts.

The amount of time spent on cases, the quantity of cases prosecuted, and methods used vary from county to county depending on available resources and local judicial practices. When reported crimes and arrests are higher, DA offices must take a variety of actions to meet the increased demand including: (1) prioritize cases; (2) rely heavier on plea bargaining negotiations and alternative dispositions (deferred sentencing and reduction of certain felonies and misdemeanors to violations) to reduce trials; and (3) limit the amount of time spent in preparation and prosecution of each case.

The information from the report to the 2001 Legislature by the District Attorney's Association, DOJ, and AOC included survey data on the resource needs of DA offices based on responses from 29 of the 36 counties. The five most frequently identified need categories in the 29 DA offices were: (1) additional deputy DAs/professional staff (22 counties); (2) additional ability to prosecute (versus plea bargaining) less serious crimes (21 counties); (3) additional support staff (18 counties); (4) additional investigators (13 counties); and (5) additional police and staff training (11 counties). The survey also identified other public safety needs locally that DA offices felt were important including jail capacity/staffing, additional juvenile corrections funding, and additional sheriff deputies.

Counties have backfilled the loss in the state's share of funding but their capacity to do so is limited. Factors such as the economy, falling property tax receipts, and growing demands in other county budget areas have led counties to limit the growth in DA resources. During 2002, some counties had to cut their DA staff to meet available local resources. This trend is expected to continue in 2003.

State funding also provides partial reimbursement of actual witness fees for trials and grand jury hearings in criminal cases. In the past, the amount of the state's reimbursement is less than half the total cost. During the 2001-03 budget period, resources in this part of the budget have been cut even further. In 1999-01, the state provided almost $570,000 to counties for witness fees and the amount has decreased to $311,163 in 2001-03 after the special session cuts. The counties pay the difference between the state's reimbursement and the total cost of witness fees. Counties that have difficulty making up the difference may consider other steps, which primarily rely on reducing the number of witnesses testifying at trials.

During the 2001-03 biennium, the net reduction in the budget for the District Attorneys and their Deputies is $162,209. This includes factoring in the $194,077 increase for salaries provided to agencies during the 2002 third special session. Most of the reductions have been in witness fees which have fallen by almost one half from the budget passed by the 2001 Legislature to the current 2001-03 authority of $311,163 (includes reductions tied to HB 5100, fifth Special Session). The other major reduction was in the supplement for deputy DAs which was reduced by 3.6%. An additional $114,542 was cut from the entire budget through the allotment process in response to the December 2002 forecasted shortfall.

Governor's Budget

The 2003-05 Governor's budget for District Attorneys and their Deputies is $9.5 million General Fund, a decrease of 1% from the 2003-05 budget adopted by the 2001 Legislature. DA salaries are increased by over 10% due in part to increasing PERS costs. Administrative costs increase by almost $958,000 (247%) almost entirely due to an increase in the assessment by DAS for tort liability coverage. Reductions in the Governor's budget include the elimination of any funding for witness fees and a 63.3% decrease in the funding for deputy DA supplements from the budget authority for 2001-03 after the fifth Special Session. The Governor's budget eliminates all but $673,147 of the funding in this budget that is not tied to DA salaries or fixed state government charges.

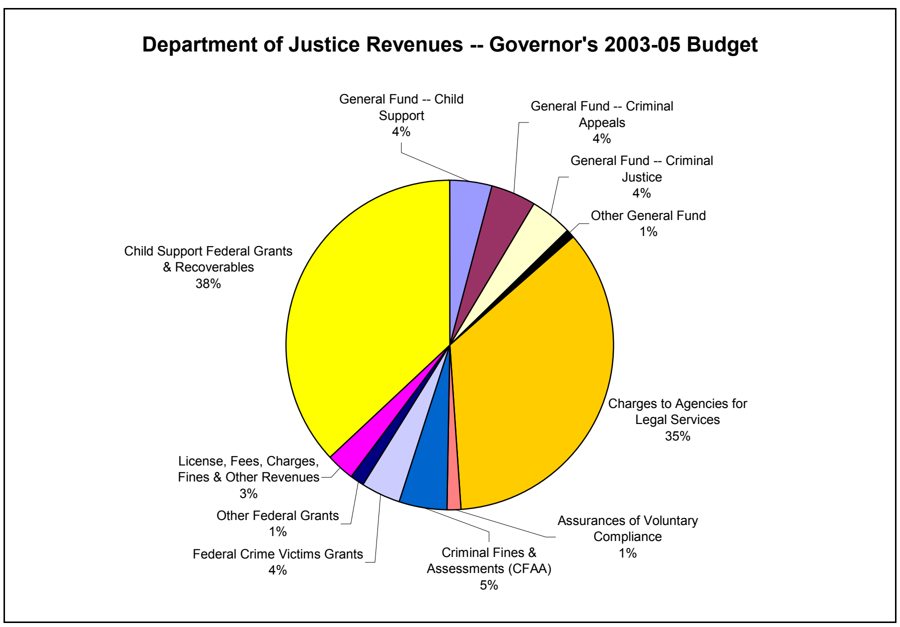
Department of Justice (DOJ) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	13,215,584	23,948,669	23,642,847	36,907,073
Other Funds	153,052,088	177,395,734	184,008,115	129,360,554
Federal Funds	12,727,345	14,384,415	14,464,397	98,846,278
Nonlimited	6,654,413	5,160,000	5,160,000	8,115,689
Total	**185,649,430**	**220,888,818**	**227,275,359**	**273,229,594**
FTE	1124.07	1173.04	1175.71	1205.58

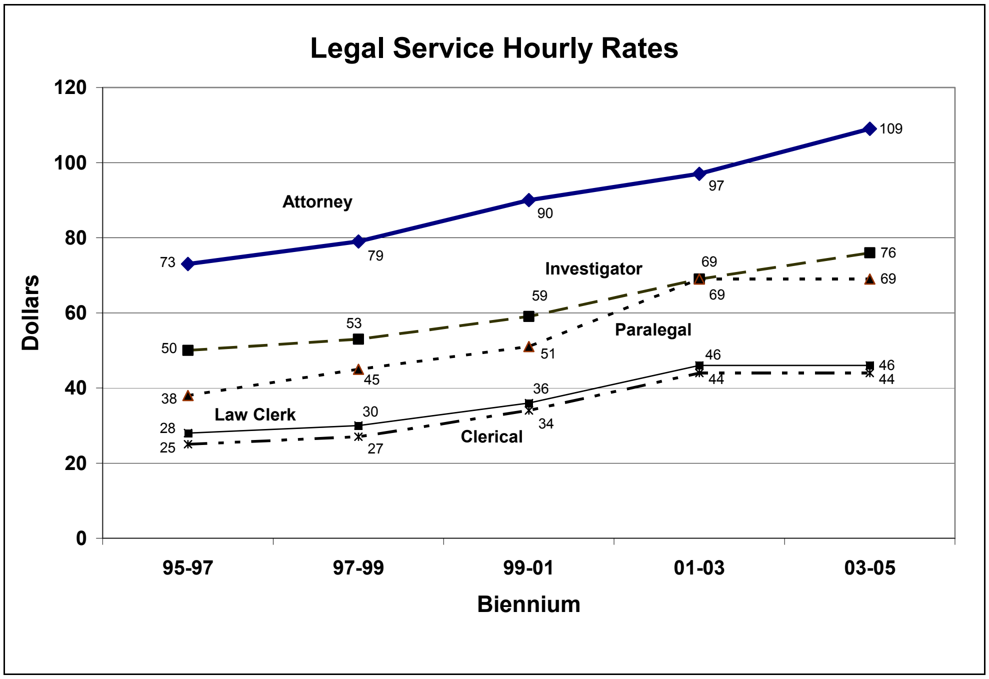
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. DOJ is also responsible for a number of programs including child support enforcement, district attorney assistance, crime victims' compensation, charitable activity enforcement, and consumer protection services. The Department includes the Office of the Attorney General (Administration) and six operational divisions (Appellate, Civil Enforcement, Criminal Justice, General Counsel, Child Support, and Trial).

Revenue Sources and Relationships

The Department of Justice relies on a variety of funding sources in the Governor's budget. The General Fund (GF) accounts for 14% of the budget and is used primarily for Child Support Enforcement, criminal appeals for which a state agency can be billed directly and for the Criminal Justice Division. Other Fund (OF) sources of revenue make up 50% of the budget and include charges to agencies for legal services, the Criminal Fines and Assessments (CFAA), license and other fees, charges, fines, and a variety of other revenue sources. Federal Funds (FF) make up 36% of the budget and include the federal share of the Child Support Enforcement and Medicaid Fraud programs, Crime Victims grants, and Marijuana eradication grants. The graph below shows the distribution of the revenue sources for the agency.



Over a third of the revenue for DOJ is from the hourly charges to state agencies for legal advice, litigation, and other legal services. DOJ operates similar to a law firm in which its legal services are billed not only to state agencies but also internally. For example, the Trial and Appellate Divisions bill the Criminal Appeals Fund to cover costs not billable to other state agencies. The hourly rates are determined by the actual cost of providing legal services agreed to through the legislative process. In the past, hourly rates have had to cover programs not fully supported by the GF but changes made in the last budget discontinued this practice. The rate does cover indirect costs of providing general counsel services and related administrative services. On the next page is a chart showing how the rates have changed since 1995-97 and the rates proposed in the Governor's budget.



During the 2002 special sessions, DOJ had limited reductions to meet the state-wide shortfalls and the 2002 fifth special session rebalance needs (HB 5100) including:

- reducing funding from legal services activities in several divisions so DOJ could transfer $1.2 million from the Legal Services Fund to the General Fund;
- $400,000 GF from assistance to district attorneys, criminal intelligence efforts and the domestic violence grants in the Criminal Justice Division;
- $478,829 from the Criminal Appeals Fund which provides resources for cases handled by the staff of the Appellate and Trial Divisions.

Governor's Recommended Budget

Overall the Governor's budget grows by 23.7% from the Total Funds budget adopted by the 2001 Legislature and by 54.1% in GF. The significant growth in the GF is driven almost exclusively by the transfer of direct funding for child support enforcement from the Department of Human Services (DHS) to DOJ. Instead of appropriating the GF to DHS and sending the GF share and matching FF to DOJ, the Governor's budget appropriates the GF directly to DOJ. Consequently, there is an $11.5 million increases in GF and $85.2 million FF increase reflecting this transfer. If this transfer had not occurred, the GF increase between the legislatively adopted 2001-03 budget and the Governor's budget would be 6.1%.

Major actions in the Governor's budget include:

- Rollup of the HB 5100 reductions in the Medicaid Fraud unit, Domestic Violence Abuse grants, assistance for district attorneys, criminal intelligence unit, and the Criminal Appeals Fund. The amount of the reductions is generally double the amount of the reduction for 2001-03 and is adjusted for inflation. Other agencies took larger proportional reductions in rolling up their HB 5100 cuts.
- Programs funded by the Criminal Fines and Assessments (CFAA) are reduced by a total of $3.9 million because of falling revenues and competing needs. The DOJ programs affected include Criminal Injuries Compensation Account, Child Abuse Medical Assessments, Child Abuse Multidisciplinary Intervention (CAMI), and Regional Assessment Centers.
- Resources are added to respond to workload increases or new federal funding in child support, Non-Participating Manufacturers (Tobacco Master Settlement related), consumer protection complaints, and election fraud.

The rates for legal and other related services charged both to state agencies and internally to DOJ have not been changed from the agency request budget in the Governor's budget. The hourly rates in the budget are as follows:

- $109 for attorneys, increasing from $97 for 2001-03;
- $76 for investigators, increasing from $69 in 2001-03;

- $69 for paralegals, remaining the same as 2001-03;
- $46 for law clerks, remaining the same as 2001-03; and
- $44 for clerical staff, remaining the same as 2001-03.

The rate for attorney services reflects changes that are not included in other agency budgets including a cost of living increase (COLA), resources for the second merit, inflation and policy packages proposed in the agency request budget but not accepted by the Governor in his budget.

DOJ – Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	16,546	10,618	13,126
Other Funds	8,467,860	13,425,688	13,931,041	12,132,486
Total	**8,467,860**	**13,442,234**	**13,941,659**	**12,145,612**
FTE	71.84	83.72	83.72	86.88

Program Description

Administration includes the Office of the Attorney General and Administrative Services. The Office of the Attorney General, which includes the executive management of the Department, sets direction and policy for the Department. Administrative Services provides centralized operational support services for the entire Department and includes fiscal services, information services, facility operations, and human resources.

Revenue Sources and Relationships

The primary revenue source for Administration is derived from a cost allocation plan which charges the other divisions and programs in the Department for services like fiscal, personnel, overall management, and information systems. The distribution of these costs is based on the amount of time or service each section of Administration provides to a division. These are Other Fund expenditures for Administration, but are derived from General Fund, Other Fund, or Federal Fund sources in each division. The General Fund amount of $13,126 in the Governor's budget in administration is for payment of a portion of the Attorney General's salary.

Budget Environment

The Department as a whole has experienced considerable growth since the 1995-97 biennium increasing the demands for (1) fiscal services staff to manage legal billings and to collect amounts due the agency in a timely manner; (2) information services staff to provide full technology support to over 1,200 employees; (3) operations staff providing facilities, purchasing, moving, and mail services at 28 locations around the state; and (4) human resource staff that provide recruitment, classification, and training services. The growth and complexity of revenue to the Crime Victims' Program has required an increased level of fiscal oversight to ensure compliance with federal accounting and reporting requirements. The allocation of budget management to program managers has increased the need for more complex budget information and reports to program managers.

In response to a budget note, DOJ contracted with a consultant to assess the information system staff needs of the Department. There are currently 23 technology positions supporting the legal services units of DOJ and the consultant recommended that 32 positions are required to fill identified short and long term needs. The Governor's budget fills a portion of this recommendation by extending two limited duration positions, transferring another position from the General Counsel Division, and adding other resources. The major information systems need for DOJ is for increased imaging capability, specifically for child support enforcement activities. This is a longer term project which will not get to the point in 2003-05 that was desired because of funding availability. The Department will take an incremental approach for imaging to stay within the budget constraints. Other information systems initiatives underway include E-Government, and increased Web interface applications.

A recently completed study has demonstrated the salaries of many of the attorneys in DOJ are paid at a rate lower than their counterparts in other states. A 2001 study performed by the Conference of Western Attorneys General found many of the DOJ attorneys have specialized and very complex "practices" which generally command greater salaries in both the private and public sectors. When compared to other Oregon public sector attorneys in larger jurisdictions, the DOJ attorney salaries are less. The top step in the annual salary for an assistant attorney general in DOJ is $84,324 while the Multnomah county District Attorney pays up to $96,075 and Lane County pays up to $94,349. The State of Washington's Attorney General pays up to $114,197 for their top step. This issue makes recruiting and retaining attorneys a significant challenge for DOJ.

Governor's Budget

The Governor's recommended budget of $12.1 million Total Funds is a 9.6% decrease from the budget adopted by the 2001 Legislature. The majority of the decrease ($2.7 million) reflects DOJ's decision to distribute state government services charges to the Division based on their use. In previous biennia, these costs were paid out of Administration. Other changes made in the Governor's budget include:

- An increase of $131,560 OF and the establishment of three positions to meet growing workload for administrative services. Most of the increased costs from these positions are funded by reductions in Services and Supplies elsewhere in this budget.
- An increase of $262,161 OF and four positions to respond to increased information systems needs as identified by a consultants study. Two of the four positions are extended limited duration positions funded from Services and Supplies reductions and another position is transferred from the General Counsel Division. New grant resources provide the funding for the fourth position.

DOJ – Appellate Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	7,878,999	8,769,167	9,056,205	10,216,462
Total	**7,878,999**	**8,769,167**	**9,056,205**	**10,216,462**
FTE	49.50	51.00	51.00	50.83

Program Description

The Appellate Division represents the state in all cases that are appealed to state and federal appellate courts in which the state is a party or has a significant interest. Attorneys in this Division spend the majority of their time preparing briefs and arguing appeals in criminal, civil, and administrative cases in which the parties disagree with the trial court results. In most of these cases, attorneys appear before the Oregon Court of Appeals, the Oregon Supreme Court, and the federal Ninth Circuit Court of Appeals. Attorneys occasionally appear in other federal appellate courts and the U.S. Supreme Court. Attorneys in this Division also must prepare and defend ballot titles, a growing workload issue in recent years.

Revenue Sources and Relationships

Although the Division's budget is totally supported with Other Funds, the principal source of funds to pay the billings is the General Fund appropriation for Criminal Appeals (see later section). Revenue for civil or administrative appeals is Other Funds that are generated from the hourly fees billed to the state agencies involved in the appeals. In the past, any shortfall in funding in this Division was covered by OF resources from hourly rates paid by state agencies for legal services and advice. This practice was discontinued for the 2001-03 budget to insure the hourly rate paid by state agencies accurately reflects the cost of services they receive.

Budget Environment

Since the Department is usually responding to appeals filed by others, it has little or no control over its workload. The Division handles roughly 1,800 cases per biennium and is involved in about 80% of the cases in front of the Oregon Court of Appeals and about half of the cases in the Oregon Supreme Court. During 2000, 2001, and the first half of 2002, over 2,000 criminal cases were briefed and argued that defendants had appealed. Criminal appeals are expected to continue to increase. The increase in appeals is driven by projected increases in the prison population, longer mandatory sentences imposed under Ballot Measure 11 and HB 3488 (chronic property offender legislation), and more challenges to decisions made by the Board of Parole and Post Prison Supervision. Death penalty cases are automatically appealed. The criminal caseload complexity has also increased significantly based on the size of briefs, number of legal cites by all parties, and the number of assignments of error. The increased complexity is requiring attorneys to spend more time per case, which increases costs. While the Department receives few death penalty appeals during each biennium, these cases are always very complex and time consuming.

The pending cases continue to grow for this Division. Since 1998, the number of pending post-conviction relief cases pending has grown from 427 to over 600. During the same period the number of pending federal *habeas* cases has grown from 168 to 229.

This Division also experiences greater workload demands because the number of ballot measures continues to increase. More ballot initiatives generate more complaints about ballot titles that the Department must defend. The Division's workload in this area has increased by 80% since 1997. For the 18 months between July 1997 and December 1998, attorneys billed 1,182 hours for work related to Ballot Measures. For the 18 months from July 2001 and December 2002, DOJ estimates that it will bill for almost 4,000 hours of attorney time. Since there is no client agency to bill for ballot title work, the Department has absorbed this workload in its budget.

Governor's Budget

The Governor's recommended budget of $10.2 million Other Funds has grown by 16.5% from the budget adopted by the 2001 Legislature. Almost all of the growth is attributed to employee compensation increases built in the budget process and the transfer of State Government Services Charges from Administration to the other divisions in DOJ. There are no policy packages or staff increases for this division.

DOJ – Civil Enforcement Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	614,226	2,222,264	2,246,776	2,470,869
Other Funds	18,407,103	18,652,033	19,252,301	22,363,180
Federal Funds	955,367	1,669,291	1,726,012	1,845,874
Total	**19,976,696**	**22,543,588**	**23,225,089**	**26,679,923**
FTE	115.06	132.80	132.80	138.33

Program Description

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

- The ***Family Law*** section in the largest unit in terms of attorny resouces and represents the Division of Child Support (DCS) in judicial proceedings to establish paternity and child support orders. This section also represents the Department of Human Serivces (DHS) in termination of parental rights cases and mental health commitments. It also provides a portion of the general counsel advice to these programs.
- The ***Civil Recovery*** section prosecutes plaintiff's civil litigation on behalf of any agency with a tort, contract, statutory, or other claim to recover money or property. It also represents agencies in bankruptcy proceedings and in post-judgment collections.
- The ***Medicaid Fraud*** section investigates and prosecutes billing fraud by Medicaid providers and physical or financial abuse or neglect of residents in Medicaid-funded and other qualifying long-term care facilities. It has historically devoted significant resources to educating providers in order to reduce innocent billing errors. Federal Medicaid law requires each state have a fraud unit separate from its Medicaid designated agency (DHS).
- The ***Financial Fraud/Consumer Protection*** section educates consumers to better protect themselves against marketplace fraud and abuse. It also educates businesses and encourages voluntary compliance with the state's Unlawful Trade Practices Act (Oregon's consumer protection law) and telemarketing laws. It also prosecutes violations of these and antitrust laws, seeking restitution, attorney fees, and penalties for injured consumers and state agencies to deter future wrongdoing. This section may also assist state agencies in carrying out their regulatory functions (e.g., Department of Consumer and Business Services).
- The ***Charitable Activities*** section supervises and regulates the activities of charitable, professional fundraisers, and, to some degree, other nonprofit organizations and enforces laws related to charitable trusts, charitable solicitations, and nonprofit gaming.

Revenue Sources and Relationships

Revenue to support the *Family Law and Civil Recovery* sections comes from billings to state agencies involved. Federal Funds provide 75% of the resources for the *Medicaid Fraud* section while the state must contribute a 25% match to receive the federal funds. The federal government has allowed DOJ to use Medicaid funds recovered from earlier investigations and prosecutions in lieu of the 25% General Fund match. Changes in federal policy, however, will make this more unlikely in the future. *Financial Fraud/Consumer Protection* section services are funded by both the General Fund and Other Funds, including funds in the Consumer Protection and Education Revolving Account paid by companies and organizations that sign assurances of voluntary compliance for violations of consumer protection laws. Other Funds also include annual fees paid by gaming registrants or licensees. Fees charged to charitable and non-profit organizations for registration and filing financial reports provides funding for the *Charitable Activities* section.

Budget Environment

The *Family Law* section expects to continue to see some additional workload caused by the federal requirement which imposes rapid timelines that speed the process for placement of children in permanent homes. The growth in the past is expected to slow given the reduced level of staffing at DHS and less court time available in part due to budget cuts. DOJ anticipates growth of approximately 3.3% over the next two years.

For the 1999-01 biennium, the *Civil Recovery* section opened almost 2,400 cases and assisted in collecting almost $24 million on behalf of state agencies. While the number of open cases is expected to be nearly the same, the average amount collected per case is expected to be up 20% for the 2003-05 biennium. The Department believes the cases are becoming more complex, requiring more attorney and staff time.

Despite its relatively small size when compared to other states, Oregon's *Medicaid Fraud* unit is recognized as one of the top performers. States like Arkansas, Oklahoma, New Mexico, and Washington have comparable Medicaid budgets to Oregon, but have larger Medicaid Fraud units. For example, Arkansas had a FFY 2000 Medicaid budget of $1.4 billion and a Medicaid Fraud staff of 20 compared to Oregon's Medicaid budget of $1.8 billion and staff of 11. The increasing number of senior citizens in long-term care facilities, the growing size of the Medicaid budget, the greater number of Medicaid providers, a federal expansion of the section's jurisdiction, and the increasing sophistication seen in health care fraud schemes has substantially increased the workload for this unit. It has had to turn away the least severe cases. Recognizing the importance and success of this program, the 2001 Legislature added six positions to this unit.

The *Financial Fraud/Consumer Protection* section anticipates a steady increase in its workload, especially in the growing field of Internet fraud. Consumer hotline calls increased from an estimated 61,000 in 1999 to over 85,000 calls for the period between July 2001 and July 2002. Part of this expansion can be explained by expanding the hours for which the Hotline was operating. Written complaints increased by 90% since 1999; and complaints received via the Internet increased over 100 percent. There has been a growing caseload backlog as a result of this workload growth. In 1999, the backlog was one week, growing to an average of one month in 2001 and to two months in 2002.

The number of registered *charitable organizations* has increased from about 3,000 in the early 1990s to over 11,700 as of the beginning of 2002. This unit must also monitor performance and proposed actions of charitable organizations. Prior to modifying the governing bylaws or terminating a trust, the charitable organization proposed actions must be reviewed by this unit. Over the past three years, there have been an average of 50 such reviews performed. Nonprofit gaming organziations, numbering roughly 750, are also monitored including screen applicants for licenses and insuring compliance with rule.

The 2001-03 budget shortfalls have had relatively small impact on this Division with the Medicaid Fraud unit losing less than $10,000 from its GF budget.

Governor's Budget

The Governor's recommended budget of $26.7 million Total Funds is 18.3% higher than the 2001-03 budget adopted by the 2001 Legislature. Almost all of the growth is due to employee compensation and the transfer of state government service charges from Administration to individual divisions. The Governor's budget adds 5 positions in two policy packages funded with Other Fund revenue:

- To continue to receive million of dollars annually through the Tobacco Master Settlement Agreement (MSA), the State must enforce the Non-Participating Manufacturing statute. This law requires any manufacturer who chooses not to join the MSA to reserve funds equal to the amount it would have to if it was a party to the MSA. Consumer protection funds have been used in the past for this, but the Governor's budget proposes funding the $919,490 OF for three positions and related costs from the MSA proceeds.
- Two positions ($281,640 OF) are proposed to respond to the growing consumer protection enforcement caseloads. As noted above a caseload backlog is growing and this new staff will assist in bringing it down. Existing funding in the Consumer Protection Revolving Account will fund this package.

DOJ – Criminal Justice Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,729,862	10,003,210	10,157,630	10,836,903
Other Funds	7,972,452	15,232,171	15,914,729	18,452,845
Federal Funds	11,771,978	12,715,124	12,738,385	11,820,697
Nonlimited	6,654,413	5,160,000	5,160,000	8,115,689
Total	**32,128,705**	**43,110,505**	**43,970,744**	**49,226,134**
FTE	66.50	74.76	77.43	85.92

Program Description

The Division is organized into three sections:

- The ***District Attorney Assistance*** section assists the 36 District Attorney 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. Small and medium sized counties benefit from this program more than larger counties. In isolated cases DOJ staff may step in and act as the DA for a county.
- The primary purpose of the ***Organized Crime*** section is to detect and combat organized criminal activities in the state. The section also investigates allegations of corruption or malfeasance by public officials in Oregon and, where needed, assists with legal action. This section hosts the Western States Information Network for Oregon which shares intelligence information amoung five western states. This section also paricipates with the Oregon State Police and Department of Revenue in the Tobacco Tax Compliance Task Force. Since June 1999, three Oregon counties have been designated by the federal government as a High Intensity Drug Trafficking Areas (HIDTA). Federal Funds are supporting local enforcement efforts and an Investigative Support Center has been integrated with DOJ's Criminal Intelligence Unit.
- The ***Crime Victims' Assistance*** section is responsible for administering six programs on behalf of innocent crime victims. The *Crime Victim's Compensation program* was created to provide assistance to innocent victims who sustain injuries resulting from criminal activity. The F*ederal Victims of Crime Act* is a program that provides funds to states and local organziations for victims' assistance. The *Prosecutor-based Victim/Witness Assistance* program is a grant program to certified prosecutor's office across the state that want to create a local program. Subject to the availabilty of funds, the State Crime Victim Grant program are grants to local public and private agencies that provide services to victims of violent crimes. The *Child Abuse Multidisciplinary Intervention Account or CAMI* provides state funds for a multidisciplinary approach to assessment, investigation, and prosecution of child abuse cases. The 2001 Legislature created *the Domestic and Sexual Violence Services Fund* with General Fund to advocate, provide safety, promote cooperation among agencies and stabilize the infrastructure for these victims of assault.

Revenue Sources and Relationships

District Attorneys' Assistance and the Criminal Intelligence sections are funded primarily by the General Fund while the Crime Victims' Compensation program is supported by revenue from the Criminal Fines and Assessment or CFAA ($12.5 million), punitive damages and restitution, and federal grant funds ($10.8 million). These federal grants are derived from penalty assessments levied against offenders in federal courts.
The Division receives funds from a contract with the California Department of Justice, which administers the federal grant supporting the Western States Information Network ($710,783 OF). Other Funds ($1.2 million) are provided through an agreement with the Oregon State Police to support the efforts of the federally designated High Intensity Drug Trafficking Area program.

Budget Environment

The number of applications for crime victim benefits continues to increase, averaging 305 per month in 1999-01 and 370 per month in 2001-03. The number of agencies and program grants that DOJ must monitor is also increasing. In spite of workload increases, the Crime Victims' Compensation section has been able to reduce a significant backlog of cases. The Department is reviewing the Crime Victims' Compensation Program in light of the events of September 11, 2001. DOJ may introduce legislation to broaden the scope of the program to reflect identified needs of these types of events.

State funding for the Crime Victims' Compensation is in question because of the uncertainty of the Criminal Fines and Assessment (CFAA) funding stream. During 2001-03, large reductions to CFAA funded programs were averted only because construction of the new training facility of the Department of Public Safety, Standards and Training (DPSST) was not started and the CFAA allocation for that debt service could be transferred to other programs. If reductions in the public safety system continue resulting in fewer law enforcement officers and less court availability, CFAA revenues will continue to fall. In future biennia, this problem becomes even more acute since the new DPSST facility will require both the debt service and greater staffing needs. Both of these are higher statutorily priorities for CFAA revenue than these DOJ Crime Victims' programs.

The number of cases handled and the time devoted by the District Attorney Assistance (DAA) continues to increase. With the decreases elsewhere in the state-wide public safety community, the demand for DA assistance will likely increase. The number of DAA cases opened have roughly doubled between 1999-01 and 2001-03. The Department has temporarily handled the additional workload with existing staff through overtime (6% growth in month hours between 1999-01 and 2001-03) and slower response time. If the workload continues to grow, additional legal, investigative, and support staff will be needed.

During the 2001-03 biennium, this Division has added resources (4 positions and $480,000) to staff the Tobacco Tax Compliance Task Force along with the Department of Revenue and Oregon State Police. During the same period, almost $400,000 GF will be reduced from the Division's budget as a result of HB 5100 and a further $230,000 as a result of the allotment cuts caused by the lower than expected December 2002 forecast.

Governor's Budget

The Governor's budget for the Criminal Justice Division of $49.2 million Total Funds reflects an increase of 14.2% over the 2001-03 budget adopted by the 2001 Legislature. The General Fund portion of this budget is proposed to grow by 8.3% or $0.8 million from the 2001 legislatively adopted budget Growth in the budget is attributed to employee compensation, phasing in costs associated with adding positions during the biennium for the Tobacco Tax Compliance Task Force and the Crime Victims' Compensation program, and the distribution of state government service charges from Administration to the individual divisions. Other major features in this budget include:

- A reduction of $683,214 GF for assisting the District Attorneys and for the Criminal Intelligence unit.
- A reduction in the the Domestic Violenceand Sexual Abuse grants to a variety of local organizations by $186,985 GF.
- Programs funded by the Criminal Fines and Assessment (CFAA) revenues lose almost $4 million OF in resources. While the allocations remain about the same as 2001-03, the available beginning balances have declined sharply.
- Two positions are added in anticipation of new federal grant resources to pursue election fraud.

DOJ – General Counsel Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	25,782,355	30,318,367	31,274,859	34,835,345
FTE	162.55	166.75	166.75	166.55

Program Description

The General Counsel Division provides a broad range of legal services to state officials, agencies, boards, and commissions. Staff provides oral and written legal advice, drafts or reviews contracts and other documents, represents agencies in administrative hearings, and furnishes legal opinions. The Division also handles some litigation and appellate work involving client agencies. State agencies generate varied and diverse legal issues. To deal with this broad range of subject matter, the Division is organized into the following nine sections: Business Activities, Education, Government Services, Human Services, Labor and Employment, Natural Resources, Regulated Utility and Business, Tax and Finance, and Business Transactions. State agencies generally must use the legal services of DOJ, and not contract with outside counsel or hire attorneys on staff for legal services without DOJ approval.

Revenue Sources and Relationships

Funds to support the General Counsel Division come from billings to state agencies for legal advice and representation as needed.

Budget Environment

This Division's workload continues to grow in volume and complexity, as state agencies' need for legal advice and representation increases. Areas where workload is increasing include the growing complexity of contracts or transactions (specifically in the information technology area), PERS related issues, endangered species actions, water quality litigation, and court actions in juvenile services. Also employment-related matters (such as employee grievances, disciplinary actions, collective bargaining issues, and sexual harassment) comprise a growing percentage of the workload. The creation of a central hearings panel initially slowed the growth in contested case hearings and has prompted many of the licensing boards to seek alternative methods of resolving disputes. Overall, the total number of pending actions continues to grow. In July 1996, the number of pending actions was 9,369; in July 2000, 19,591; and in July 2002, the number was 23,388.

Actual demand for General Counsel services depend on the needs of state agencies. With the high potential for reductions in the amount and scope of state services, the actual demand for General Counsel services is difficult to determine. With the elimination of some state services, the demand could drop. On the other hand, reduction or elimination of services will lead to further legal actions and issues as advocates, clients, and providers of services funded by the state challenge the reductions in the courts. This affects not only this Division but also the Trial Division. If there are significant layoffs, the workload of the Labor and Employment section could increase.

The 2001 Legislature discussed a number of cost saving measures regarding legal services for state agencies and included a number of budget notes or expectations in funding bills. Examples included: (1) expecting agencies and DOJ to work together in using more templates and standardized forms for contracts and procurement reducing the need over time for legal review of all components of every contract; (2) exploring further class exemptions from legal sufficiency review of contracts; (3) evaluating whether agencies could benefit from the development of lay representatives; (4) working closely with agencies to minimize legal costs and establish procedures to coordinate requests for legal services within agencies; and (5) exploring a bidding process for minimizing outside legal counsel contracts. Results of some of these actions are to be reported to the 2003 Legislature.

Governor's Budget

The proposed Governor's budget of $34.8 million Total Funds is 14.9% over the legislatively adopted budget passed by the 2001 Legislature. Growth in the budget is almost entirely due to employee compensation and the distribution of state government service charges from Administration to indivual divisions. A position is transferred from General Counsel to Administration as part of the DOJ overall information systems resource planning. In addition, a position is added to provide access to legal research funded by reductions elsewhere in the Division's budget.

DOJ – Trial Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	10,803,096	12,041,207	12,414,111	14,688,240
FTE	74.88	76.21	76.21	80.71

Program Description

The Trial Division defends the state and its agencies, departments, boards, commissions, officers, employees, and agents in all state and federal trial courts. The Division is organized into teams specializing in the following five areas: (1) commercial and environmental litigation; (2) corrections litigation; (3) torts and employment issues; (4) condemnation; and (5) special litigation issues. The cases range from defending a state employee involved in an auto accident while on state business to defending the Legislature from constitiutional challenges to its authority to pass certain laws. The Division also handles all trial court cases involving inmate litigation. These cases may include appeals from their state court convictions or alleged violations of inmates' constitutional rights.

Revenue Sources and Relationships

Most of the revenue to support this Division is from billings to state agency clients. However, some types of appeal cases heard in trial courts that are filed by or on behalf of incarcerated persons are handled in this Division and charged against the General Fund appropriation for the Criminal Appeals Fund. In the past, any shortfall in funding in this Division was covered by Other Funds resources from hourly rates paid by state agencies for legal services and advice. This practice was discontinued for the 2001-03 budget to insure the hourly rate paid by state agencies accurately reflects the cost of services they receive.

Budget Environment

The largest unit in this Division is the Corrections Litigation Unit. It handled 729 cases in 2000, 848 cases in 2001 and is expected to handle almost 800 cases in 2002. This workload is expected to increase as more prisoners are filing legal actions dealing with issues such as conditions of confinement, as well as efforts to overturn prior convictions and avoid lengthy mandatory sentences for repeat offenses. Case statistics indicate that while the total number of opened habeas corpus and post-conviction cases has not changed significantly over the last five years (ranging from 337 to 410), the number of attorney hours billed has more than doubled (from 3,000 to 6,500 hours). The Department attributes this increase primarily to case complexity. The Department is interested in adding more attorneys to this Division so that Oregon trial attorney caseloads will be more comparable to those used in three neighboring states (e.g., 74 cases federal habeas cases per attorney in Oregon in 2000 compared to 25 in Washington).

Special litigation issues continue to increase in number and complexity. Many issues place the state at risk of losing a substantial amount of money. Initiatives prompt challenges to the language of the measure, its appropriateness for the ballot, the validity of the signatures to support it, the counting of the votes and the sufficiency of the measure if passed. This unit is also involved in defending decisions made by the Environmental Quality Commission surrounding permits issued for construction and operation of the chemical incinerator in Umatilla. Significant human service related cases have added workload to the unit. Civil rights, the American with Disabilities Act (ADA), and entitlement to service all are issues the Division must deal face.

The significant reductions in other areas of state government will increase the workload of this Division as clients, advocates, providers, and others turn to the legal system to offset their loss of service or compensation. These types of cases are already appearing in the system for cuts made earlier in the 2001-03 to Human Service programs.

The number of condemnation related cases has almost doubled between June 2001 and June 2002. If funding for more transportation construction becomes available, this growth will continue.

Governor's Budget

The proposed Governor's budget of $14.7 million Total Funds is a 22% increase from the budget adopted by the 2001 Legislature. Most of the budget growth is due to employee compensation increases built into the budget. Four new positions are added ($629,281 OF) to address the growing expected workload in ODOT construction projects and condemnation actions. This package will be paid by increased billings to ODOT.

DOJ – Child Support Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	11,507,814
Other Funds	73,740,223	78,202,205	81,409,973	15,823,493
Federal Funds	0	0	0	85,179,707
Total	**73,740,223**	**78,202,205**	**81,409,973**	**112,511,014**
FTE	583.74	587.80	587.80	596.36

Program Description

This Division has redefined its mission to focus on enhancing the well being of children rather than focusing solely on the collection of child support. It establishes paternity, enforces and modifies child support obligations, and receives and distributes support payments from absent parents. The Division provides these services automatically for families: (1) if requesting, receiving, or have received, public assistance from the Department of Human Services (DHS); (2) if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or (3) if the case has been referred by another state. The Division also provides these services to other families if they request the service. In addition, the Gilliam, Hood River, Lake, Linn, Sherman, Deschutes, Jefferson, and Wheeler County District Attorneys have chosen not to provide their own programs and contracted with DOJ to handle all their child support cases.

Revenue Sources and Relationships

The child support program is a joint federal, state, and local program. Federal funds generally support 66% of the program costs; and state GF, local funds, and recoverables pay the remaining 34 percent. In the past, DHS contracted with the Department of Justice to provide child support program services and, therefore, these resources were budgeted as Other Funds. The Governor's budget reflects proposed legislation for the 2003 Legislature which transfers all responsibility and funding for child support functions from DHS to DOJ. If passed, DOJ will directly receive General Fund and Federal Funds instead of a transfer from DHS (as Other Funds).

Budget Environment

The program serves roughly 249,000 families per year with about 19% being handled by local District Attorneys and the remainder by DOJ staff. Approximately half of the DOJ caseload is receiving or recently received a DHS or OYA payment or service and the other half represents closed public assistance cases and private cases. Caseloads are expected to continue to increase slowly over the next few years reaching 255,200 by the end of the 2003-05 biennium. Collections continue to grow in part due to economic factors like inflation. The ratio of total collections to the Division's costs is increasing, from \$3.17 in the 1999-01 biennium to an estimated \$3.60 currently.

Compared to surrounding states, Oregon's performance in child support is relatively good. The amount collected for each dollar of program cost has exceeded the amounts in California, Washington, and Idaho in 2000 and 2001. Caseload per staff is also higher than California and Washington, but not Idaho.

Oregon uses recoveries to assist in funding the state share of the program costs. Over time the amount of recoveries has fallen relative to the costs of the program because of changes in federal policy to increase the amount of funding provided to families (often referred to as the "pass-through"). There is still some discussion at the federal level of wanting to further increase the pass-through. If this happens, the program could require additional state GF in the future. Falling Temporary Assistance to Needy Families (TANF) caseloads have also contributed to the decrease in recoveries, but in the past year TANF caseloads have increased some, in part due to economic factors.

Changes in the federal program requirements continue to have impacts on the program. The pass-through requirement outlined above is a good example of this as well as numerous information systems related requirements. Two other issues merit noting. New federal requirements increase the workload on state programs by requiring them to contact employees of new hires which are non-custodial parents, and insure that the children are covered under an employee's health plan wherever possible. Workload for the program grows by increasing the need to do outreach for employers, follow-up to questions of employers, follow through to insure the coverage is made available, and information systems changes. The fiscal impact of this is not included in the Governor's budget. There may be future savings to public health care programs like the Oregon Health Plan as further children are placed on private insurance.

Federal law sets out performance expectations for states to meet. If states fail to meet these standards, the federal government has the authority to penalize the state by reducing the TANF grant which is a major funding source for assistance payments and child welfare programs in the Department of Human Services. If the state fails to meet the requirements of the state plan for child support (e.g., information systems requirements), the federal government may reduce its share of operating the program.

During 2001-03 there has been interest on the part of some counties to transfer the local District Attorney child support programs to the state for administration. Two counties, Deschutes and Jefferson, did turn their programs over to the state without any resources. Many counties do put in local funding to support their programs. At least one other larger county was interested in turning their program over to the state but after a local funding measure passed decided to retain the program. DOJ has committed it will not assume any further local programs without legislative approval for the necessary resources.

Governor's Budget

The Governor's budget grows by almost 44% total Funds over the budget adopted by the 2001 Legislature driven mostly by transfer of the program from the Department of Human Services (DHS) to DOJ and increases in employee compensation. Currently (2001-03 biennium), the GF and FF are in the DHS budget and a contract between DHS and DOJ transfers funding for the DOJ portion of the program as OF. In the Governor's 2003-05 budget, there are increases in GF ($11.5 million) and FF ($83.7 million) with a decrease in OF limitation ($73.6 million) reflecting the funding changes that are part of the transfer. The net difference of $21.6 million between the increase in GF and FF and the decrease in OF is due to the transfer of costs that are presently paid by DHS including 9 positions ($1.2 million), mailing costs ($2.2 million), payments to District Attoneys ($15.3 million), and information systems costs ($0.9 million).

Other major changes in the Goevernor's budget include:
- Continuation of 19 positions ($1.9 million TF) that have been limited duration for the past three bienna. The work associated with these positions is ongoing and related to Welfare Reform; previous Legislatures have failed to make them permenant.
- Establishment of 5 positions ($286,007 TF) to respond to anticipated caseload growth.

DOJ – Criminal Appeals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	6,871,496	11,706,649	11,227,823	12,078,361
Other Funds	0	754,896	754,896	848,503
Total	**6,871,496**	**12,461,545**	**11,982,719**	**12,926,864**
FTE	0.00	0.00	0.00	0.00

Program Description

Criminal Appeals is a budgetary unit to track the cost to the Department of defending the state in cases in which sentenced offenders challenge their convictions or sentences or where there is no state agency to directly bill for the legal services. Personnel and resources connected to this work are part of the Trial and Appellate Divisions.

Revenue Sources and Relationships

Criminal and capital appeals are primarily financed by the GF appropriation. In 1997-99 and 1999-01 this program was "subsidized" by adding a "surcharge" to the fee charged agencies for legal services. In 2001-03 this practice was terminated and sufficient GF was added to this budget unit so the subsidy did not have to continue.

Budget Environment

A number of factors drive the use of this fund and the workload of the Trial and Appellate Divisions. These include:
- The number of contested criminal convictions which is in large part due to the number of offenders in the correctional system. The number of contested convictions will likely increase in the future due to Ballot Measure 11 since offenders are serving longer sentences and they are more likely to appeal decisions given their longer sentences.
- Resources available to other parts of the criminal justice system have an impact on the demand for these funds. If there are fewer resources available for the Public Defender Services Commission (PDSC) programs, there may be fewer appeals at the state level. This may be more of a delay or a change in the nature of the case. Courts still may pressure defense representatives to file in a timely manner even if their resources are constrained and the nature of the cases will change. In the past, resources for the programs of the PDSC were increased leading to a growth in the number of appeals. This resulted in a growing backlog, so DOJ shifted resources internally and was successful in bringing the backlog down.
- If state resources for the PSDC are limited, some offenders may appeal directly through the federal *habeas* process. DOJ also defends the state's interest in these cases. Since public defender resources are much greater at the federal level, and cases are further developed, individual case costs for DOJ are much greater.
- The complexity of individual cases is a major factor since it drives up the time spent on each case. Based on a case rating, the complexity of criminal appeals cases over the past two biennia have increased slightly.

The 2001-03 budget for Criminal Appeals was reduced by almost $500,000 GF by HB 5100 and by a further $52,000 in response to the December 2002 forecast shortfall. This will likely lead to a delay of processing cases during 2001-03 and will have larger impacts if continued in 2003-05.

Governor's Budget

The proposed Governor's budget for Criminal Appeals is $12.1 million GF ($12.9 million TF), a 3.2% increase over the amount adopted for 2001-03 by the 2001 Legislature. This growth is the net of two actions:

- The 2001-03 budget was adjusted upward reflecting the proposed increase in the hourly rate DOJ charges for attorney services from $97 to the proposed rate of $109 in the Governor's budget. If the rate is adjusted by the Legislature, the amount budgeted for this fund should be revisited.
- The Governor's budget reflects the rollup of the HB 5100 reductions and removes $1.1 million GF. The impact of this cut may be that DOJ would have to prioritize the cases that it appeals and the current backlog of pending cases would increase.

Military Department (Military) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	12,699,550	13,719,463	13,254,109	13,017,427
Other Funds	8,042,250	5,995,197	10,302,959	5,731,700
Federal Funds	42,699,014	47,915,450	61,101,710	52,435,118
Total	**63,440,814**	**67,630,110**	**84,658,778**	**71,184,245**
FTE	408.86	377.24	375.15	360.58

The Military Department is responsible for administration of the Oregon Army National Guard, the Oregon Air National Guard, and the Oregon State Defense Force. The National Guard is a federal-state partnership, which serves on a day to day basis under the command of the Governor, but is available to the federal government upon orders from the President. The members are trained to assist should there be man-made or natural disasters, or a need to back up law enforcement agencies.

Revenue Sources and Relationships

The Department's operating Other Funds revenue sources contribute 6% of the agency's total state budget and include 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. Miscellaneous sales revenues are derived from vending machine profit, coin operated telephones, and recycling programs. Excluding Capital Improvement and Major Capital Construction, the General Fund makes up approximately 19% of the agency's total state budget.

The federal government provides approximately 95% ($395 million) of the funding for the Oregon National Guard. However, only a limited portion of these funds ($52.5 million or 13% of the Federal Funds) is included within the Department's budget. Guard member salaries and wages are paid directly by the federal government and are not included in the Military Department budget. Federal Funds support: all troop training costs; Department of Defense programs; base security; fire fighters; Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE); 60% of the Youth Challenge Program; 75% of the logistical sites; and between 75% and 85% of the utility, maintenance, and supply expenditures of the Air National Guard.

Budget Environment

In 2003-05, Federal Funds are expected to increase from $46 to $50 million. The major share of the increase is attributed to the amount of funds available for federally funded facilities. The critical issues remain in the recruiting efforts for attracting new members and the agency's ability in retaining current members. The Oregon National Guard has a significant commitment of National Guard assets that provide economic benefits to the state and communities and serve as an important resource in disaster relief and recovery. Oregon faces the loss of units to other states if training levels and facilities' readiness is not maintained. The Air Guard authorized force strength has increased by 8.9% since 1990 and actual strength has averaged 95% of authorized levels. Authorized strengths for the Army Guard declined by 17.8% during this same period; actual force strength declined 27%. Over the past two biennia the Army Guard has been able to increase its authorized strength levels from 80% in 1998 to 87% in 2002. The Department attributes the increase after 1998 to the tuition assistance program initiated in the 1997-99 biennium. The program provided assistance to Guard members with post-secondary education costs. An estimated 1,250 Oregonians have joined the Guard due to the tuition incentive. The Tuition Assistance Program is eliminated to phase-in the February 2003 pro-rata reduction adopted by the 2002 fifth special session.

Armories that are constructed with significant federal participation but operated and maintained at state expense are in serious decline. Insufficient General Fund and Other Funds have resulted in an inability to fully leverage available federal funding. The amount of additional Federal Funds that could be available to Oregon's Military Department if state match money were available is estimated at over $30.5 million.

Increasing numbers of Guard members are on federal active duty. As a result of international developments and national defense policy, deployment of Oregon National Guard units and members is growing. Over the past two years, over 3,100 Oregon Air and Army Guard members have been mobilized for federal duty in the United States and abroad. Future federal deployments and mission changes, such as the worldwide deployment of the 1042nd Air Ambulance Company (rescuers at Mount Hood in 2002), and reassignment of the air Guard search and rescue, may affect the Department's ability to respond to state emergencies.

During the special legislative sessions held in 2002 to balance the state's General Fund budget, the Military Department's 2001-03 legislatively adopted budget was reduced by $303,201 General Fund to reflect administrative savings by reducing the Tuition Assistance Program where funding has not yet been committed. The General Fund appropriation was increased by $252,040 to cover the additional salary requirements at approximately 75% of actual costs. The agency expects these reductions to be covered by vacancy savings and reductions in services and supplies in 2001-03.

In addition to the legislatively approved reductions, the agency's General Fund budget was reduced by $160,258 through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency will reduce the Tuition Assistance Program by only funding students currently approved for funding until funds are depleted. Recruitment of new members will be negatively impacted.

HB 5100 from the 2002 fifth special session provides for an additional $496,626 General Fund to be reduced from the agency's budget since the January 2003 tax measure was not approved by voters. This will result in reducing further the Tuition Assistance Program funding to students that the agency has committed funding. Funding will continue until funds are depleted and new applications will not be accepted, resulting in a negative impact on recruitment.

Governor's Budget

The Governor's recommended budget of $71.2 million is $13 million or 15.7% less than the 2001-03 legislatively approved expenditure level. Specific Governor's recommendations are discussed under each program unit.

Military – Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	4,366,763	4,381,468	3,552,268	3,243,666
Other Funds	653,415	1,096,355	1,181,273	1,131,818
Total	**5,020,178**	**5,477,823**	**4,733,541**	**4,375,484**
FTE	29.75	27.75	26.01	22.75

Program Description

The Administration Program consists of the office of the Adjutant General, Command Group Financial Administration, Personnel, Education and Training, and Public Affairs. This program supports approximately 2,135 state and federal full-time employees, commands over 9,000 soldiers and airmen, and provides oversight for approximately $2.5 billion in facilities and equipment.

Budget Environment

Recruiting and retaining Oregon National Guard (ONG) personnel continues to be the primary focus for the 2003-05 biennium. Although increased funding for tuition assistance in the 2001-03 biennium resulted in a significant increase of 256 new personnel, the Oregon National Guard was still 996 personnel below required strength levels as of April 1, 2000. This is an improvement compared to July 1998 and April 2000 when the Oregon National Guard was 1,603 and 1,094, respectively, personnel below required strength levels. The Department attributes the improvement to the Tuition Assistance Program. Without a strong Tuition Assistance Program, the ONG will not be able to attract enough new members to meet strength requirements. A decline in strength levels could result in the loss of units and associated positions, equipment and federal funding. Due to General Fund constraints, the funding for the Tuition Assistance Program was eliminated from the Department's budget in the 2002 fifth special session budget rebalance. With tuition assistance funds no longer available, the Department is again experiencing a downturn in enrollment.

Governor's Budget

The Governor's recommended budget is 7.5% below the 2001-03 legislatively approved expenditure level. The recommended budget includes a shift of funding for an Accountant Technician 1 position from the General Fund, ($34,751) to 100% Other Funds; eliminates a Human Resource Analyst 1 position (1.0 FTE) at $34,594 General Fund and $80,724 Other Funds, and eliminates a Program Representative 1 (1.0 FTE) from the General

Fund ($104,644) and reduces services and supplies $154,548. The recommended budget eliminates the Tuition Assistance Program reducing the General Fund by $857,584. The recommended budget also reduces the impact of a $20,833 General Fund as a result of Governor Kitzhaber's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above.

Military – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,644,792	8,572,931	8,936,777	9,773,761
Other Funds	1,368,281	2,497,175	2,595,892	2,897,920
Federal Funds	34,288,925	39,915,068	47,565,578	45,401,653
Total	**43,301,998**	**50,985,174**	**59,098,247**	**58,073,334**
FTE	329.11	297.49	297.14	302.83

Program Description

The Operations Program is responsible for the operation and management of the Army and Air National Guard programs on a daily basis. The Operations Program consists of 13 major areas of responsibility for the National Guard programs. The areas of responsibility include:

- ***Army National Guard Facilities Operations and Maintenance*** (95.50 FTE). This program combines all Army National Guard facilities operations and maintenance activities into one program including real property operations and maintenance, logistical facilities, armories, training facilities, security, and automated target systems. The program provides basic operation, maintenance, repair, and alteration support for Oregon Army National Guard facilities. The program is funded primarily by Federal Funds with a state matching requirement of 0% to 50%, depending on the nature of the program.
- ***Army National Guard Construction Operations*** (4.0 FTE). This program manages construction of Oregon Army National Guard facilities. Construction management includes project oversight, contract administration, and quality assurance to ensure that construction work is completed according to plans, specifications and terms of the contract. The program is funded primarily with General Fund.
- ***Army National Guard Environmental Program*** (5.0 FTE). The environmental program is responsible for overseeing compliance with federal and state environmental regulations for Oregon Army National Guard facilities. The program is 100% federally funded except for one position that requires a 25% state match.
- ***Counterdrug Program.*** This program supports local, state, and federal law enforcement efforts to stop the flow of illegal drugs into the state and manufacture of illegal drugs in Oregon. In addition, the program supports the drug abuse prevention education and training efforts of community-based organizations. The program utilizes Oregon National Guard members, equipment, and specialized technology to provide technical, operational, training, and reconnaissance/observation that augments drug abuse prevention programs within Oregon. The program is 100% federally funded.
- ***Air National Guard Administration Program*** (2.0 FTE). This program provides command and administrative support for all Oregon Air National Guard programs. Administrative staff is 100% federally funded while services and supplies are funded by the General Fund.
- ***Air National Guard Civil Engineering Program*** (51.61 FTE). This program provides facility operations and maintenance, repair, and alteration support for the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded primarily by Federal Funds with a state match of 15% to 25%.
- ***Air National Guard Security Program*** (29.0 FTE). This program provides security police protection at the Portland Air Base and Kingsley Field. Security personnel are instrumental in protecting aircraft and facilities against theft, sabotage, vandalism, and trespass. This program is 100% federally funded.
- ***Air National Guard Fire Protection Program*** (36.0 FTE). This program provides fire protection at the Portland Air Base and Kingsley Field. Personnel are trained to contain aircraft fires, perform air crew extraction, and provide structural fire fighting protection. It is the only source for crash/rescue and fire fighting at the Klamath Falls Airport. This program is 100% federally funded.
- ***Air National Guard Environmental Program*** (2.0 FTE). This program monitors and ensures environmental compliance at the Portland Air Base, Kingsley Field, and Camp Rilea Air National Guard facilities. The program is funded through a federal-state cooperative agreement and requires state matching funds of 15% to 20%, depending on the program location.

- ***Kingsley Field Billeting Program*** (2.0 FTE). This program provides lodging to Oregon National Guard members, F-15 fighter pilot students, and flight medicine students receiving training at Kingsley Field. The program is 100% federally funded.
- ***Electronic Security System Program*** (2.0 FTE). This program provides electronic security systems for all facilities designed for storage of small arms or ammunition. Electronic security system equipment and replacement components are procured directly through the federal supply system with 100% Federal Funds.
- ***Equipment Refurbishment Program*** (58.0 FTE). This program provides repair for excess unserviceable electronics, power generation, and support equipment that is then redistributed to fill critical equipment shortages in the National Guard. The program is operated at Camp Withycombe in Clackamas, Oregon and is 100% federally funded.
- ***Telecommunications and Recruiting Program*** (1.5 FTE). This program provides procurement, operation, and maintenance of the Oregon Army National Guard telecommunications system and office space for recruiting new members in Beaverton, Salem, and North Bend. The program is 100% federally funded.

Budget Environment

The Oregon National Guard currently has 567 buildings, including 38 operational armories and 13 training/logistical sites in 25 counties representing approximately 3.5 million square feet. The age of a majority of the Army National Guard facilities makes them inefficient and expensive to operate and maintain. The average age of all Army National Guard facilities is 37 years. A recent analysis indicated 40% do not fully meet Department of Army standards and are in overall fair condition, and 47% are dysfunctional or substandard and in overall poor condition. The declining condition of facilities results in a decline of lease and rental revenue that is a primary revenue source available for operation and maintenance of the armories. It also has a direct and negative impact on recruiting, training, and retaining soldiers. The current backlog of deferred maintenance is estimated at $61 million. Without additional funding, the agency expects the current trend of facility degradation to continue at 5% per year. Currently, 13 armories, 11 maintenance facilities, and 389 other buildings are being operated without basic custodial and facility maintenance and repair support. The Department projects a significant increase in repair costs if repairs are delayed to future biennia. Security concerns following September 11th have caused the Department to discontinue using inmate labor for custodial tasks at the Portland Air Base.

Governor's Budget

The Governor's recommended budget of $57,934,096 is 2% below the 2001-03 legislatively approved budget. The recommended budget reduces services and supplies by $55,319 General Fund. The Governor recommends increasing the Federal Funds expenditure limitation by $598,283 and five positions (5.0 FTE) for facilities planning and environmental management. The positions will address encroachment issues at agency facilities throughout the state and implement a federally required environmental management program. The positions are one Planner 3, one Facility Engineer 1, and three Natural Resource Specialist 3s. The recommended budget also includes $2.6 million in Federal Funds in anticipation of increased support from the National Guard Bureau for repair and maintenance of Army Guard facilities at federally supported installations; $2.4 million Federal Funds for construction of training ranges at the Boardman Bombing Range; and reduces $2 million in Federal Funds from Army National Guard Telecommunications expenses that will be paid directly by the Department of Defense. Also recommended is $94,191 Federal Funds and one Volunteer Program Management position (1.0 FTE) to staff the federally-funded Family Readiness and Support Services program and $52,202 Federal Funds and one position (1.0 FTE) to add a Custodian 1 at the Portland Air Base. The required 20% state match for the custodian is funded by shifting $12,978 General Fund from services and supplies to personal services.

Military – Community Support

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	687,988	765,064	765,064	0
Other Funds	2,465,547	2,401,667	2,550,897	1,701,962
Federal Funds	4,359,582	4,294,382	9,830,132	3,808,465
Total	**7,513,117**	**7,461,113**	**13,146,093**	**5,510,427**
FTE	50.00	52.00	52.00	35.00

Program Description

The Community Support program coordinates support for local programs and supports the Governor's initiatives on education, environment, public safety, and productivity. The program contains the agency's Science and Technology Academy Reinforcing Basic Aviation and Space Exploration (STARBASE), Youth Challenge, and Innovative Readiness Training Programs. STARBASE is designed to increase at-risk third through eighth grade students' awareness of the importance of math and science. The curriculum demonstrates math and science applications in aerospace operations. National Guard members demonstrate applicability of math and science to flight operations, weather reporting and forecasting, electronics maintenance, and fire fighting facilities. Youth Challenge offers at-risk high school dropouts an opportunity to complete educational credit with a goal of reintegrating into high school to earn a diploma or prepare for the General Education Development (GED) examination. The program consists of a 22-week residential training program followed by a 12-month nonresident program. Innovative Readiness Training provides engineering and construction training for Oregon Army National Guard soldiers through community support projects that will provide military-related training for soldiers. Typical projects include park development and construction, road and bridge construction, and utility projects.

Budget Environment

The STARBASE and Innovative Readiness Training programs are 100% federally funded through the National Guard Bureau. The National Guard Bureau is increasing federal funding to improve and expand the curriculum of the STARBASE program. The Youth Challenge Program is 60% federally funded, requiring 40% state matching funds. A portion of the required state match is received from Average Daily Membership Other Funds revenue through the Bend-LaPine School District and the remainder has historically been received from the General Fund. For the 2003-05 biennium, Other Funds that had been used as part of the state match are decreasing or have been disallowed as match.

Governor's Budget

The Governor's recommended budget of $1,255,522 is 58% below the 2001-03 legislatively approved budget. The recommended budget eliminates $791,842 General Funds, $868,943 Other Funds, and $917,895 Federal Funds from the Youth Challenge Program which will reduce the number of students from the 100 to 110 students per class down to 65 to 75 students and eliminate 12 positions (12.0 FTE). The Department anticipates that Congress will adjust the required 40% state contribution to 25% during the biennium. The National Guard Bureau has verbally approved the state contribution adjustment. The agency may be able to return to the larger class size if Congress approves the adjustment in state contributions. The proposal is dependent on maintaining close to the current Average Daily Membership funding ($30.21/day per student) from the Department of Education.

Military – Capital Improvement/Major Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7	0	0	0
Other Funds	3,555,007	0	1,424,000	0
Federal Funds	4,050,507	3,706,000	3,706,000	3,225,000
Total	**7,605,521**	**3,706,000**	**5,130,000**	**3,225,000**
FTE	0.00	0.00	0.00	0.00

Program Description

This program provides for new construction, remodeling or improvements to facilities to carry out the agency's mission.

Revenue Sources and Relationships

Other Funds revenue in the Construction Account is from the sale of real property and earned interest. The revenues generated from the sales of properties are used as state matching funds. By emphasizing construction of Armed Forces Reserve Centers wherever possible, the agency can access federal funds for approximately 97% of the design and construction costs requiring 3% state matching funds. Depending on the type of facility constructed, the federal government pays between 67% and 100% of the approved construction cost. Site improvements and multi-purpose accommodations outside the federal guidelines are 100% state obligations. The Department is also partnering with other state departments as well as county and municipal agencies to co-locate, identifying common functions such as assembly halls, parking lots, restrooms, classrooms, cafeteria, and food service areas that may be shared. This reduces the design and construction costs, and reduces the long-term operations and maintenance burden of each agency. Finally, the Department works to identify buildings, facilities, and real property that are excess. These properties and facilities are sold and the funds added to the Major Construction Other funds Account for future projects. Other funding sources may include Certificates of Participation and interest earnings.

Budget Environment

The Construction Account, mostly acquired from the sale of Camp Withycombe property for highway right-of-way, is nearly depleted and cannot provide the required match on currently approved federal projects. The agency has more than 30 projects identified in the National Guard Bureau Long-Range Construction Plan estimated at $214 million. Of that amount, the state would be required to pay 10% ($21.4 million). While the agency plans to identify excess buildings, facilities, and real property to generate revenue to offset the state match requirement, the Major Construction Other Funds Account presently does not have sufficient funds to undertake additional projects. The agency plans to pursue all available Federal Funds for new facility design and construction and is looking to partner with other state agencies to share services and reduce operational expenses. In the future, Federal Funds for capital construction are expected to be highly competitive.

Governor's Budget

The Governor's recommended budget of $3,225,000 Federal Funds is 40% below 2001-03 legislatively approved expenditure level. The recommended budget will fund $825,000 for planning, design, and construction of a new dining facility at Camp Rilea and $2.4 million for two range development projects at the Boardman Bombing range.

Board of Parole and Post-Prison Supervision – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,883,296	3,217,226	3,037,524	3,474,155
Other Funds	3,003	3,637	3,637	3,764
Total	**2,886,299**	**3,220,863**	**3,041,161**	**3,477,919**
FTE	11.38	16.00	15.00	14.75

Program Description

The three member Board of Parole and Post-Prison Supervision is responsible for setting parole release dates for offenders who committed crimes prior to November 1, 1989; approving release plans and establishing conditions of community supervision for all offenders; setting release dates for dangerous offenders; responding to offender appeals; administering parole revocation hearings; issuing arrest warrants and order sanctions for parole/PPS violators; and notifying victims of hearings and releases.

Revenue Sources and Relationships

The Board is supported primarily by the General Fund. Other Funds revenue is generated from the sale of documents and hearing tapes to members of the public and to offenders.

Budget Environment

The Board's role has changed as the number of offenders eligible for parole (for crimes committed before November 1989) decreases and the number of post-November 1989 offenders eligible for post prison supervision (PPS) increases. The Board establishes release dates only for the pre-November 1989 offenders but sets the conditions for supervision and responds to violations of those conditions for all offenders. The number of pre-November 1989 offenders has decreased from 5,300 in 1988 to 1,625 in 2002. In contrast the number of post-1989 offenders has increased to over 11,000 by 2002. The result of this shift is the Board holds fewer formal release date hearings but has a greater administrative workload involving release plans, revocations, warrants, and discharges. Major factors and trends contributing to the workload of the Board include:

- The number of ***offenders under parole and post-prison supervision*** continues to grow. Based on the most recent forecast prepared by the Office of Economic Analysis (April 2003), this number is anticipated to grow from 11,033 in April 2002 to 11,245 by July 2003, and to 11,547 by July 2005. Roughly 85% of this population is under the jurisdiction of the Board and the remainder is under the jurisdiction of counties. This growth leads to increases in the number of ***supervision orders and plans*** the Board issues. The most recent forecast also shows a continued growth in the prison population meaning a continuing future workload for the Board.
- The number of ***supervision violation hearings*** has decreased over the years. The Board's single hearings officer conducts hearings in 20 counties. The remaining 16 counties conduct their own hearings under an intergovernmental agreement but the payments made to counties by the Board have not kept pace with the cost. As a result, some counties may decide to return the responsibility to the Board.
- The number of ***supervision revocations*** has fallen from a monthly average of 140 in 1995 to 103 in 2002.
- The Board issues ***arrest warrants*** for those offenders who abscond supervision. The number of warrants has averaged approximately 350 per month in recent years. This is down from the 1997 average of over 600 per month before the implementation of SB 1145 which transferred responsibilities to the counties.
- The number of ***public and victim contacts and inquiries*** for offenders has increased due in large part to the growth in the number of registered victims -- from 300 in 1988 to over 9,800 in 2002.
- There is a growing number ***of inmate or offender appeals of Board actions*** as a result of the growing population. This increases the Board's Attorney General costs, since the Board's decisions are appealed directly to the Court of Appeals. Legislative actions last session (HB 2348) gave greater ability to the Board and the Department of Justice to work toward dismissing many of these cases, which hopefully will reduce these costs in the future.

Decisions regarding the release authority of the Department of Corrections will affect the workload of the Board. If the Legislature provides greater use of transitional release and earned time related releases, the Board's workload could increase, at least temporarily.

The state wide fiscal crisis lead to reductions in the Board's 2001-03 budget during the series of 2002 special sessions. During the second special session in February 2002, the Board's budget was reduced causing delayed hiring of a position and the downward reclassification of another position. The third special session actions resulted in eliminating a mail clerk position and reductions in other spending. The failure of the tax measure in January 2003 led to reductions of over $113,000 in the budget resulting in the layoff of two positions and further reductions in services and supplies.

Governor's Budget

The Governor's budget for 2003-05 of $3,474,155 General Fund is $257,056 or 8.0% greater than the 2001-03 budget approved by the 2001 Legislature. This is one of the few public safety agencies where there is an increase, reflecting the decision by the Governor to maintain the adult correctional system at the state level nearly whole. This budget restores the roll-up value of the reductions that resulted from the failed tax measure in January 2003 (Ballot Measure 28). Without this restoration, the Board would have had to eliminate four positions. Increases in the budget are in employee compensation ($278,723), and in inflation and state government service charges ($275,134). The budget reflects the loss of a mail clerk position originally cut in the third special session. Other reductions include the amounts designated for Attorney General services and in professional services. The assumption is that the changes from the implementation of HB 2348 (noted above) will reduce the need for legal services. The budget includes a package requesting the re-class of an information systems analyst.

Department of State Police (OSP) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	167,149,931	183,011,772	173,145,050	166,920,318
Lottery Funds	3,303,064	4,722,074	4,857,534	5,032,023
Other Funds	59,246,074	121,796,275	123,303,009	127,477,726
Federal Funds	46,367,372	66,536,788	69,995,777	70,424,910
Nonlimited	87,403,450	21,359,947	25,359,947	21,359,947
Total	**363,469,891**	**397,426,856**	**396,661,317**	**391,214,924**
FTE	1,468.41	1,444.31	1,346.76	1,081.97

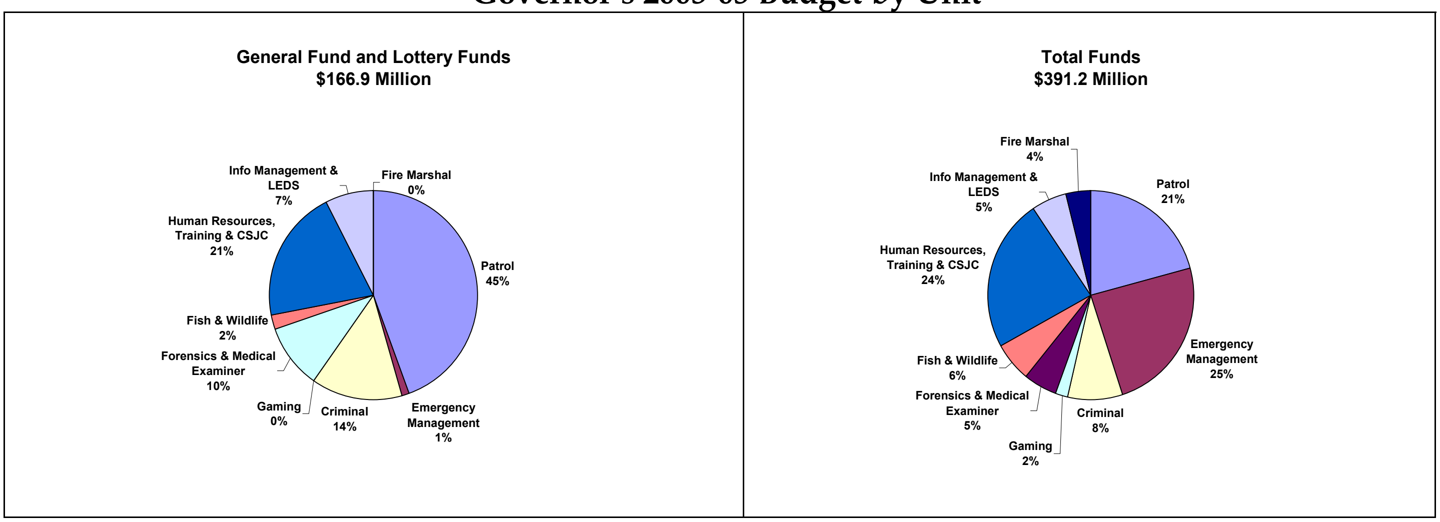
Historic functions of the Oregon State Police (OSP) include patrol, criminal investigation, forensic lab services, and fish and wildlife law enforcement. Responsibilities expanded when the 1993 Legislature approved merger of the Boxing and Wrestling Commission, Office of Emergency Management, Law Enforcement Data System (LEDS), State Fire Marshal, and accounting for the Arrest and Return of Fugitives into OSP. The 1995 Legislature further expanded agency responsibilities further by adding two more functions, the Medical Examiner and Criminal Justice Services Division. During 2001-03, the Governor issued an executive order making the Office of Emergency Management a stand alone agency for management purposes to increase the visibility and to centralize state-wide emergency management activities after September 11, 2001.

The Department has undergone a major reorganization during 2001-03 partially due to Legislative direction through a 2001 budget note requiring an internal organization review. As a result, the various divisions and units are divided into the following three bureaus for management purposes:

- Bureau of Investigation including the Forensics Services, Gaming and Criminal Investigation divisions, and The Office of Public Safety and Security;
- Central Operations Command including the Patrol and Fish/Wildlife divisions, the management and support of the field structure, and the two dispatch command centers (Salem and Central Point); and
- Intergovernmental Services Bureau which includes the Office of Information Management (computer systems, wireless communications, LEDS, and identification services), Office of Emergency Management, Medical Examiner, Criminal Justice Division and State Fire Marshal.

In addition to the units above there is the Superintendents Office and the agency's administrative and support services. For budget purposes the Department has nine units which are outlined in the following charts.

Governor's 2003-05 Budget by Unit



As part of its reorganization, OSP transferred a number of major programs between budget units in the Governor's 2003-05 budget including:

- Capitol Mall, Legislature and Dignity Protection security moved from Patrol to Criminal Investigation;
- Positions for coordinating the SWAT and Mobile Response Team (MRT) units are transferred from Patrol to Special Operations in Human Resources Services;

- LEDS is no longer a separate unit and is moved into Information Management;
- Dispatch functions and positions are transferred from Information Management to Special Operations in Human Resources Services; and
- Identification Services is transferred from Forensics to LEDS in Information Management.

The State Police saw significant General Fund budget cuts during the 2001-03 biennium with a total reduction of $11.2 million or 6.1% between the budget passed by the 2001 Legislature and the authorized budget after the January 2003 tax measure defeat. In addition, another $2.1 million was reduced because of the shortfall in the December 2002 revenue forecast. Approximately 80 positions were eliminated due to specified reductions during the Special Sessions, 59 positions due to the December forecast shortfall and 322 positions tied to the defeat of the January 2003 tax measure (HB 5100 cuts). Major reductions included:

- ***Special Session 2 (February 2002)*** – A new trooper school for 2001-03 was cancelled resulting in a reduction of 38 positions in the Patrol Division. There were also major reductions in the number of dispatch and information systems staff.
- ***Special Session 3 (June 2002)*** – Selective reductions were made and funds were added to pay for the increased employee compensation needs. The Legislature provided approximately 75% of the amount required, and reductions were needed to fill the gap. Reductions included eliminating staff in training, aviation, public information, and labor relations as well as reducing capital outlay. OSP also delayed hiring and kept many positions vacant across the Department to fill the gap.
- ***Special Session 5 (September 2002)*** – The specified cuts included reductions of radio maintenance resources, county reimbursement for autopsies, further capital outlay reductions, and additional cuts to services and supplies.
- ***December revenue forecast shortfall*** – These reductions were almost exclusively related to suspension of positions including support staff in the field, further dispatch staff, fleet maintenance, state parks security, patrol troopers, fish/wildlife enforcement officers, and major crime/drug investigators.
- ***Ballot Measure 28 (HB 5100)*** – Over 320 positions were eliminated when the tax measure failed including 105 positions in the Patrol Division; six trooper positions in Fish and Wildlife; 25 investigators of major and drug crimes in the Criminal Division; 99 forensic lab related positions; and 87 positions in field support, financial services, personnel, training information systems support, LEDS, and training.

Governor's Budget

The Governor's budget for 2003-05 represents a $16.1 million General Fund reduction or 8.8% ($6.2 million TF, 1.6%) from the 2001-03 budget approved by the 2001 Legislature. The reductions during 2001-03 described above are generally rolled up for the 2003-05 Governor's budget with the exception of the cuts made for the (1) December revenue forecast shortfall, (2) one-time reductions (e.g., vacancy savings), and (3) the "buy back" of 40 Patrol Division trooper positions and five forensics positions (Bend lab). Overall, there is a reduction of 364 positions (359.34 FTE) between the budget passed by the 2001 Legislature and the Governor's 2003-05 budget, and a reduction of 527 positions from the 1999-01 budget. Because of the reorganization and the major transfers of units between divisions, it is difficult to track the reductions. The following table shows the reduction of positions for each budget unit after factoring in the reorganization changes.

Change in Positions – 2001-03 Legislative Adopted to 2003-05 Governor's Budget

Positions do not include 84 seasonal cadet and limited duration positions

	Patrol	Fish & Wildlife	Criminal Investigation	Forensics & Medical Examiner	Gaming	Info Mgmt & LEDS	Human Resources & Training	Fire Marshal	Emergency Mgmt	Total
Legislatively Adopted 2001-03 Budget after Reorganization	447	120	157	149	42	159	236	82	34	1,426
Changes in Special Session and Ballot Measure 28	(154)	(12)	(15)	(93)	-	(65)	(70)	(9)	(2)	(420)
"Buy backs" in Governor's Budget	40	-	-	5	-	-	-	-	-	45
Governor's 2003-05 Budget	333	108	142	61	42	94	166	73	32	1,051
Percent Reduction	(25.5)	(10.0)	(9.6)	(59.1)	-	(40.9)	(29.7)	(11.0)	(5.9)	(26.3)

The budget units that depend on the General Fund – Patrol, Forensics, Information Management and Human Resources – are the divisions losing the most positions. Criminal Investigation loses 25 investigative positions but this is offset by the gain of positions during the reorganization which are in large part protected by the budget cuts (e.g., Dignitary Protection unit, Capitol Mall and Legislative Security). The reduction of Fire Marshal positions is due to a decrease in its primary funding source, the Fire Insurance Premium Tax.

OSP – Patrol Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	70,447,150	74,406,738	72,156,753	74,140,137
Other Funds	8,257,171	8,238,650	8,418,193	7,324,460
Federal Funds	2,118,298	1,421,308	1,460,250	333,114
Total	**80,822,619**	**84,066,696**	**82,035,196**	**81,797,711**
FTE	491.76	480.07	448.69	350.67

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 highways. Services include enforcement of the Motor Vehicle Code, Motor Carrier Regulations, Public Utility Commission Laws, Criminal Code, and assistance to local agencies and the public.

Revenue Sources and Relationships

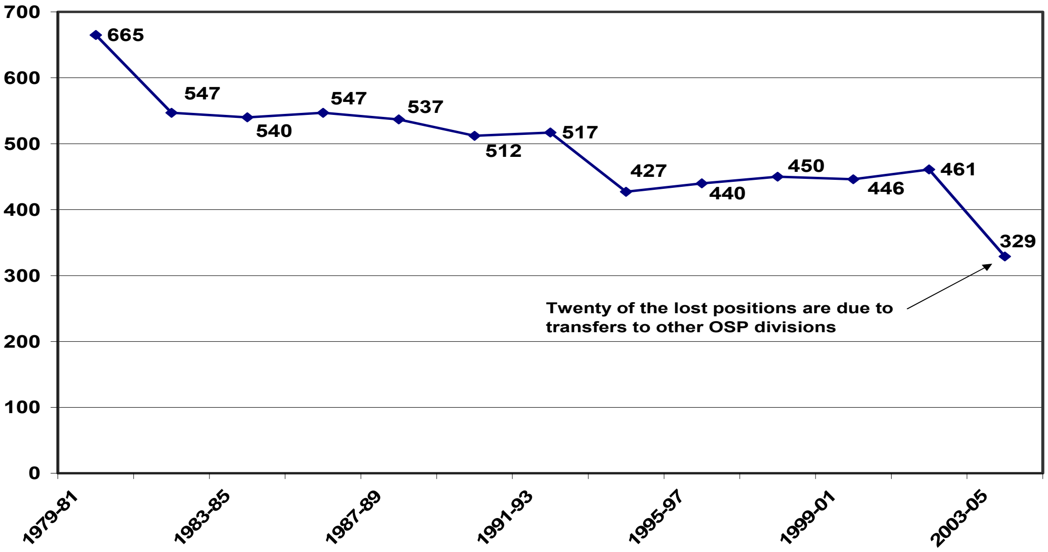
Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $3.9 million OF) including traffic safety patrols in highway construction zones, commercial truck inspections, snow-park enforcement, and DMV vehicle identification (VIN) inspections. Additional Other Funds sources include Oregon State University for campus security ($1.5 million); Parks and Recreation Department for the Cadet Program ($656,875); and State Fair for security services ($129,721). Federal Funds are provided by the U.S. Department of Justice for the Community Oriented Police Services or COPS program. This federal program has been a major source of funding in the past but is phasing out in the 2003-05 budget period. Two programs are transferred to the Criminal Investigation Division in the Governor's budget – a contract with the Department of Administrative Services (DAS) for Capitol Mall Security ($1.0 million OF) and a contract with the Legislative Administration Committee for Legislative/Capitol Security ($1.1 million OF).

Budget Environment

Since 1980, Oregon has experienced increases in population, licensed drivers, registered vehicles, and vehicle miles driven. However, the State Police presence on roadways as measured by the number of sworn officers in the Patrol Division has decreased from 665 to 329, or 50% below 1980 levels (see chart on next page). Prior to 2001-03, this reduction was due, in part, to the need to shift officers to address increases in criminal activity (violent crime, juvenile crime, drug activity, crimes against children) and increased competition for limited General Fund resources. As a result of sworn staff reductions, almost all of the state is without 24-hour coverage, patrol areas have been expanded, many duties have been eliminated, response time has increased, and officer safety has been compromised. The 1999 Legislature provided funding to phase-in 100 new patrol troopers with the newly authorized staff assigned based on the priorities established by the 1998 Community-Based Resource Gap Analysis; only 25 of the positions were actually hired. The 2001-03 Governor's budget would have eliminated 96 patrol troopers; however, the Legislature was able to restore funding for 17 positions.

From 1985 to 1997, when patrol troopers were being reduced, the number of annual traffic accidents remained below the 1985 level (50,284) until 1998 when the number of accidents reached 51,785. Since 1998 the number dropped again to a 2001 level of 48,138. The number of persons killed in accidents also declined from 1990 to 1999 (from 579 to 413) and then increased to 487 in 2001. The overall reduction in accidents and traffic deaths has been largely attributed to tougher drunk driving laws, vehicle/roadway improvements, advances in trauma care, and aggressive public information, which seem to have increased safety awareness and encouraged changes in driving behaviors. Another contributing factor is that the state's population growth primarily occurred within areas where the number of local law enforcement officers increased.

Patrol Division Sworn Full Time Positions



The Department has not updated its 2000 Community-Based Resource Gap Analysis for the 2003-05 budget. The 2000 Analysis identified the need to add over 150 troopers while the number of troopers has instead been significantly reduced since then. The shortage of troopers has led the agency to rely on strategic planning focusing resources in areas or corridors (e.g., I-5 over the Siskiyou pass) with high crash incidents.

Because of reductions in funding for equipment, several unmet needs remain including video cameras mounted inside patrol vehicles and laptop computers. In addition, radio communication between various law enforcement agencies is limited. This issue of "inoperability" is even more important given the recent terrorism related challenges facing law enforcement agencies.

In the Department's reorganization, the Dignitary Protection, Capitol Mall security and Legislative security programs are transferred to the Criminal Investigation Division (16 positions). In addition, the four positions coordinating the activities of the OSP SWAT team and the Mobile Response Team (MRT) are transferred to the central command unit in Human Resources Services. These transfers are assumed in the Governor's budget and reductions do occur in these areas in the 2003-05 budget.

The budget shortfalls during 2001-03 resulted in the reduction of General Fund by 3% or $2.2 million. After factoring in the additional need for employee compensation, the reduction is actually 5.5%. To meet this reduction in resources, cuts including the following were made:

- The recruit school scheduled for early 2003 was cancelled resulting in the elimination of 38 positions;
- Eighteen positions were left vacant to meet the salary under-funding;
- An additional 105 positions were eliminated due to the defeat of the January 2003 tax measure (HB 5100), including three positions relating to the SWAT and MRT responsibilities.

To meet the cuts necessary to fill the gap due to the December 2002 revenue forecast, OSP reduced the number of cadets that patrolled state parks, laid off another five troopers, transferred other troopers to the Portland airport (paid through a contract with PDX), eliminated the use of retired troopers for security during the Legislative Session, and delayed the delivery of 19 patrol cars until 2003-05.

Governor's Budget

The 2003-05 Governor's General Fund budget for the Patrol Division is $266,601 less than the 2001-03 budget passed by the 2001 Legislature. While there are significant cuts to staff, the relatively small decrease is due to offsetting growth in employee compensation, inflation, and a significant increase in the assessment for tort liability due to a recent court ruling on a specific case. Generally, the reductions made for balancing the 2001-03 biennium (see above) are "rolled up" for 2003-05. The exceptions to this are the reductions made to respond to the December 2002 revenue forecast and the "buy back" of 40 patrol trooper positions of the 105 positions cut by HB 5100 ($5.5 million GF). Other components of the Governor's budget include:

- The re-funding of positions due to a $1.2 million reduction in the federal COPS program resulting in the loss of 3.45 FTE overall and using the existing GF to fund the remaining positions;

- A loss of four positions to finance increased overtime necessary to cover the construction zone and other activities funded by the Oregon Department of Transportation; and
- A loss of one position ($144,942 OF) due to a reduction in the contract for security at Oregon State University.

OSP – Criminal Investigation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	19,555,071	21,398,300	21,281,396	23,646,238
Other Funds	3,862,130	2,444,572	2,496,740	4,585,434
Federal Funds	2,353,544	1,174,386	4,491,183	4,806,630
Total	**25,770,745**	**25,017,258**	**28,269,319**	**33,038,302**
FTE	152.16	141.25	140.34	146.61

Program Description

The Criminal Investigation Division augments and supports local law enforcement through investigation of major crimes, the pursuit and apprehension of criminal offenders, and the gathering of evidence. Specialized units include arson/explosives, drug investigations, intelligence, missing children clearinghouse, polygraph examinations, sex offender registration, sexually exploited children, tobacco tax compliance, homicide incident tracking system (HITS), computer crimes, and crimes in state correctional institutions. Before the most recent set of budget reductions, detectives were participating in 36 county child abuse multi-disciplinary teams; 29 interagency major crime teams; and many other groups including drug investigative teams, arson task forces, and district attorney investigative support teams.

Revenue Sources and Relationships

The Division is expected to receive almost $10 million in Other Funds or Federal Funds revenue. This is an increase of $2.4 million almost entirely due to a transfer of funding responsibility for Capitol Mall and Legislative Security from the Patrol Division. Major sources of this revenue include:

- Marijuana eradication funding from the U.S. Forest Service ($75,000 FF), Bureau of Land Management ($100,000 FF) and from the Oregon Department of Justice ($54,802 OF) which is expected to decline from 2001-03 levels;
- Sex offender registration fees ($209,537 OF) which is expected to increase slightly from 2001-03 levels;
- Arson/bomb investigation funding ($1.9 million) from the Fire Marshal of which a portion is a yet to be identified revenue source;
- Funding for High Intensity Drug Trafficking Areas or HIDTA ($4.0 million FF) which is expected to increase by almost $500,000 for 2003-05;
- Drug enforcement funding from the U.S. Drug Enforcement Agency ($263,664 FF) and federal drug seizures ($267,494 FF) which represents a decrease from 2001-03 levels; and
- Resources transferred from the Department of Human Services ($318,837 OF) for tobacco use by minors enforcement.

Funding sources lost from the 2001-03 biennium include a federal arson grant and funding from the Department of Human Services for Social Security fraud activities.

Budget Environment

The index crime rate for 2001 is 512.1 crimes per 10,000, a 4.5% increase from 2000. It is important to note that this is an overall measure and the pattern for crimes most affecting this Division may not always follow the summary measures. More recent data for the first quarter of 2002 shows increases in some of the major crimes like homicide, rape, and kidnapping. These are types of crimes where the State Police assist local law enforcement agencies. Number of crimes in correctional facilities, drug offenders and sexual offenders also drive the Division's workload.

The major workload driver for this Division beyond the crime rate is the capacity of local law enforcement agencies and their willingness to use OSP resources. State Police detectives are important resources across the state but the larger local law enforcement agencies have many more resources available. For Eastern Oregon, the Coast, and other more rural areas of the State, the State Police sometimes are the primary resource available to assist local jurisdictions with investigation of major crimes. Their participation is often key to solving the crime and beginning the process through the entire public safety system.

The Department's reorganization created the new Office of Public Safety and Security partially as a response to the events of September 11, 2001. Its purpose is to coordinate efforts of the state, local, and federal partners to protect Oregonians from domestic and international terrorism. Staff participate on formal task forces including the FBI's Joint Terrorism Task Force and DOJ's Threat Assessment Team, Governor's Security Council, and the Office of Emergency Management's Domestic Preparedness Steering Committee. The Office was created with existing staff and the Governor's budget reflects the transfer of the Dignitary Protection unit and the Capitol Mall and Legislative Security staff to this Office from the Patrol Division.

The 2001 Legislature created and provided General Fund resources for the Tobacco Tax Compliance Task Force consisting of staff from OSP, Department of Justice (DOJ) and the Department of Revenue (DOR). The Task Force is to address noncompliance in the State's cigarette and other tobacco products tax programs since tax revenues had decreased in recent years in part due to noncompliance including gray market cigarettes, Internet sales, smuggling and the use of counterfeit tax stamps. Five positions were created in OSP for this function with the expectation that the Task Force efforts would lead to a gain in tax revenues of $8.6 million during 2001-03. As part of the HB 5100 reductions, the staff for this function was eliminated in the State Police and DOR, but not in DOJ. The Governor's 2003-05 budget restores the positions at DOR but not for OSP. To effectively meet the expectations of the Legislature, all three functions must be part of the Task Force

As part of the statewide efforts to balance the 2001-03 budget, several reductions were made to this Division. Five positions were left vacant for much of the biennium to fill the gap between the amount received and the actual cost of the salary increases. Twenty five positions were eliminated at the beginning of February 2003 as part of the HB 5100 cuts. These included sergeants responsible for supervising drug and tobacco task force efforts, eight positions across the state participating in drug enforcement teams, 11 positions participating in major and violent crime teams across the state, and the four positions assigned to the Tobacco Tax Compliance Task Force. An additional 16 positions were affected as the result of the December 2002 revenue shortfall including another three sergeants supervising drug and major crime teams activities, five detectives participating in drug enforcement and eight detective positions participating in major and violent crime investigations.

Governor's Budget

The $23.6 million General Fund Governor's 2003-05 budget for this Division is $2.2 million or 10.3% greater than the budget passed by the 2001 Legislature. The increase is primarily due to employee compensation growth ($2.8 million GF), and the transfer of 20 positions from other divisions including positions relating to the Office of Public Safety and Security, the Dignitary Protection unit and the Capitol Mall/Legislative Security units ($1.9 million GF and $3.7 million TF). Other changes in the Governor's budget include:

- The reduction of 25 positions ($3.6 million GF) representing the rollup of the HB 5100 cuts involving staff performing activities relating to major/violent crime investigations, drug enforcement teams, and tobacco tax compliance;
- Termination of the contract with the Department of Human Services relating to Social Security Fraud ($114,648 TF); and
- The reduction of $1.3 million Other Funds (two positions) in Fire Insurance Premium Tax revenue for arson investigations. The Governor's budget does add back almost all of this reduction and the positions with a yet to be identified revenue source.

OSP – Forensic Services and Medical Examiners Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	20,529,928	26,497,804	24,144,797	16,522,267
Other Funds	7,117,693	7,720,488	8,000,375	3,742,308
Federal Funds	1,770,120	0	0	0
Total	**29,417,741**	**34,218,292**	**32,145,172**	**20,264,575**
FTE	199.13	210.99	190.36	61.26

Program Description

The ***Forensics Services Division*** provides scientific, technical, and investigative support to all criminal justice agencies across the state through forensic analysis and compilation of criminal offender information. Forensic labs are located in Bend, Central Point, Portland, and Springfield. A DNA Unit is also located in the Portland lab. The Coos Bay lab was closed in the fall of 2002 due to budget reductions and the labs in Pendleton and Ontario are scheduled to close due to HB 5100 reductions. This system is the only "full service" crime lab in the state and 90% of the work is done for law enforcement agencies other than OSP including local police, sheriffs, and district attorneys. The Implied Consent Unit is responsible for approval, certification and servicing of portable breath testing instruments and also trains and certifies over 5,000 law enforcement officers in the use of breath testing instruments. This unit also provides expert testimony regarding the use of these devices.

The ***Medical Examiner's Office*** is located in Portland and provides technical assistance and supervision to 36 county offices, directs investigations, provides direct professional services (autopsies, court testimony, case review, and consultation), and certifies the cause and manner of all investigated deaths. The State Medical Examiner appoints all 36 county examiners. The Office maintains records and provides training on death investigations to medical school physicians and students, law students, police officers, and emergency medical technicians. The Office has also provided proportional payments (up to 50% of the costs) for autopsies required in counties with population less than 200,000. This practice was discontinued as part of the budget reductions in 2002.

Program Area	GF	OF	Total	FTE
Forensic Services	13,245,749	2,727,406	15,973,155	54.26
Medical Examiner's Office	3,276,518	1,014,902	4,291,420	7.00

Revenue Sources and Relationships

Generally the forensics labs do not charge for services and are funded with General Fund resources. The Other Fund revenues are proceeds from Certificates of Participation (COPs) used to purchase equipment for the new Portland lab ($3.5 million) and miscellaneous sales of equipment, photographic requests, and witness fees. As part of the transfer of Identification Services to LEDS, the revenue totaling $8.8 million OF from firearms related background checks, and fingerprint and background checks for teachers and other professionals is transferred. Other Fund revenue for the Medical Examiners budget include revenues from COPs to purchase equipment for the new facility in Portland ($1.0 million) and fee revenue from autopsy reports.

Budget Environment

The State Police crime lab system is the only comprehensive lab in the state and the entire public safety system depends on it for timely investigation of evidence. Even before the current biennium's budget reductions, backlogs have increased from about 23 days in October of 2001 to a peak of over 35 days in July 2002. These will increase significantly further with the major reductions tied to HB 5100. There was a loss of trained staff to other labs including those in surrounding states even prior to the HB 5100 cuts given the uncertainty of the 2003-05 budget.

Several environmental factors are contributing to the current growth in requests for forensic services including: the growing population; advancements in forensic science; increased public awareness of the value of forensic analysis; judicial expectations that forensic evidence be provided; and improved training of police officers in the identification, collection, and preservation of forensic evidence. Before the budget reductions, the workload for the labs was increasing. Examples include:

- The number of overall request for services has increased 17.7% since 1997;
- The requests for DNA testing has increased by 117% over the past five years. This growth is accelerating given that there has been a 57% increase in requests in the first six months of 2002 when compared to the same period in 2001;
- Firearms testing requests have increased by 33% over the past three years as Portland and other jurisdictions have increased their resources in the areas of firearm and youth violence; and
- The number of pending requests at any one time continues to grow from roughly 2,000 in January 1999 to 3,500 in August 2002.

Even though there has been growth in the demand for forensics services the majority of crime scenes are not processed for forensics evidence. Based on a 1996 report, less than 10% of the crime scenes were processed.

The workload for the Medical Examiner's Office continues to increase due to continuing growth in Oregon's population. Consequently, the number of Medical Examiner cases has increased, but the percentage remains a consistent 12% of all deaths that occur. The Medical Examiner contracts with Oregon Health and Science University for toxicology testing and the costs for this contract have increased over the last several biennia. For the 2001-03 biennium, the costs are expected to increase by 30% and grow by another 10% for 2003-05.

OSP and DAS have identified a replacement for the Portland area crime lab currently in downtown Portland area after a multi-year search. The proposed building, near I-205 in Clackamas, was used as a laboratory facility for a private company who no longer requires the facility. The new facility will also include space for the Medical Examiner who currently is in insufficient space in a former Portland area funeral home and units currently in Salem. The current plan is for the state to purchase the facility with COPs, and OSP will pay rent to DAS for the facility. The rent on the new space will be significantly higher than the existing facilities. The new facility, when opened, will likely provide far more capacity than is required by the reduced level of staff included in the Governor's budget.

The Forensic Services Division saw the most significant decrease in resources of any OSP unit during the 2001-03 special sessions. Reductions totaling almost $210,000 GF in capital outlay will mean the delay in the purchase of equipment required to keep pace with technology. The Coos Bay lab was also closed as a result of reductions made to fill the gap between salary increases and the amount provided to pay for the increases. The largest cuts came from the failure of the January 2003 tax measure (HB 5100) with the elimination of 99 positions including scientists, lab specialists, evidence technicians, latent print and questionable document staff, and related support staff. These cuts also led to the loss of funds for the Bend, Ontario, and Pendleton labs. These cuts will greatly increase the turn around time for tests and will require priorities to be established on what testing must be done. This will significantly affect others in the public safety system including law enforcement agencies, District Attorneys, and the court system. Further reductions in capital outlay and services and supplies ($292,074 GF) were made as a result of the December 2002 forecast of falling revenues. Reductions in the Medical Examiners Office included vacancy savings and eliminating the reimbursements to counties for autopsies.

Governor's Budget

The combined 2003-05 Governor's budget for Forensics Services and the Medical Examiners Office is $10.0 million General Fund or 37.6% less than the budget approved by the 2001 Legislature. Part of this reduction ($3.0 million GF, $8.1 million OF) is related to the transfer of the Identification Services unit and 68 positions to the LEDS program in the Office of Information Management. Other major features of the Governor's budget include:

- Over $2.5 million GF of employee compensation increases (prior to reductions of staff) due to salary roll-up and increases in PERS and health costs;
- Elimination of 99 positions and a reduction of $11.3 million GF representing the rollup of the HB 5100 cuts outlined above. Five of these positions were restored to keep the Bend lab open ($881,583 GF) but the resources for the Ontario, Coos Bay, and Pendleton labs are not part of the Governor's budget;
- Reductions of $1.5 million GF in capital outlay and services and supplies which represent the rollup of cuts made during the special sessions or in the October 2002 rebalance;
- Decrease in reimbursements to counties for autopsies ($36,743 GF) and increases for toxicology and pathology services contracts in the Medical Examiners Office ($461,853 GF);
- Establishment of seven positions to solve doublefills in scientific equipment repair, latent prints, and questioned documents financed by reductions in services and supplies; and
- Resources for rent increases ($718,767 GF for Forensics and $374,187 GF for Medical Examiner) and new equipment ($2.6 million OF for Forensics and $990,000 OF for Medical Examiners) as the new facility becomes available later in the 2003-05 biennium. The increases for equipment are revenue from the sale of COPs and will require GF debt service.

OSP – Fish and Wildlife

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,805,187	4,830,327	4,433,579	3,981,688
Lottery Funds	3,303,064	4,722,074	4,857,534	5,032,023
Other Funds	11,634,134	13,762,252	13,966,914	14,277,788
Federal Funds	282,559	286,315	390,226	943,219
Total	**21,024,944**	**23,600,968**	**23,648,253**	**24,234,718**
FTE	129.99	126.75	125.50	118.82

Program Description

The primary mission of Fish and Wildlife enforcement is to assure compliance with laws that protect and enhance the long term health and equitable utilization of fish and wildlife resources. The officers also routinely enforce traffic, criminal, boating, livestock, and environmental laws. OSP staff work closely with the Department of Fish and Wildlife, the Water Resources Department, and the Marine Board in the enforcement of their rules. This section also plays a crucial role in enforcing the requirements under the Oregon Plan in protecting fish habitat and stream bed enhancement. Lottery Funds are specifically dedicated for this purpose.

Revenue Sources and Relationships

This Division receives its primary funding from the Department of Fish and Wildlife ($11.8 million OF) based on fish and game license fees. Historically, 28.4% of these revenues have been provided to the State Police for enforcement but its share has fallen to 17.3% in 2001-03. Overall, Other and Federal Funds revenue are expected to grow slightly above the amount available for 2003-05. Other major funding sources include:

- Ballot Measure 66 Lottery Funds for enforcement of activities relating to the Oregon Plan ($4.9 million OF);
- Marine Board resources ($1.4 million OF) for enforcement of boating laws and charters enforcement;
- Parks and Recreation Department funds for activities on the Deschutes River ($244,244 OF);
- Corps of Engineers ($300,087 FF) for enforcement activities across the state; and
- Department of Environmental Quality ($211,276 OF) funds for environmental investigations.

Budget Environment

The increasing population is creating greater demands for fish and wildlife enforcement and protection services at a time when there is reduced growth in license and tag revenues being transferred from ODFW. The Division's budget was 75% funded from ODFW transfers in 1981-83 falling to roughly 49% in 2003-05. In the meantime, the amount of biennial ODFW license and tag revenue has increased by almost 100%. This decreased share has been offset by other funding sources such as Lottery Funds, but this has also changed the focus of enforcement. The increasing population will also create greater demands for recreational use of parks, waterways, wilderness areas, and public lands. This will require further regulation and restriction on the usage of these resources with accompanying demands for law enforcement to ensure compliance.

OSP is hiring more staff with backgrounds in biology and other sciences strengthening the skills of the staff and augmenting their law enforcement training. This has become valuable as the regulations and practices facing this staff have become more complex. While the recent reductions have not hit this Division as hard as Patrol, the "bumping" based on seniority will mean the younger Fish and Wildlife staff will lose their jobs to more senior staff from other divisions. The result will be the loss of staff with the science based training.

The Fish and Wildlife Division staff performs basic law enforcement activities beyond their generally assigned responsibilities. They are available to Patrol and other divisions to support their functions. This is one reason there is General Fund in this Division's budget since these types of activities are beyond the scope of the funding streams from ODFW or the Ballot Measure 66 Lottery funds. If General Fund is reduced, the availability of this staff to perform these other functions would be reduced.

Relative to other divisions, reductions to Fish and Wildlife during 2001-03 were not large. Positions were held vacant for a limited number of months to save General Fund, and services and supplies were reduced in the fifth special session by $77,451 GF. Six positions were lost due to the HB 5100 reductions with three of these regulating the commercial fish industry, which are funded with only General Fund at this time. Another two positions were affected as a result of the December revenue forecast shortfall.

Governor's Budget

The Governor's 2003-05 budget for this Division is expected to grow by $633,000 or 2.5% Total Funds from the budget passed by the 2001 Legislature. General Fund resources fall by 17.6% or almost $850,000 and the number of positions is reduced from 142 to 136. Major features of the Governor's budget include:

- Elimination of six positions representing the "rollup" of the HB 5100 cuts ($861,799 GF);
- Reduction in services and supplies rolling up the changes made during the special sessions and rebalances ($357,648 GF);
- Net reduction of six positions due to revenue from ODFW and the Marine Board not keeping pace with increases in the cost of the program. Most of the cost increases are due to employee compensation issues. Originally nine positions were eliminated but the Governor's budget restored three. Funding of two of the restored positions are dependent on the increase in the ODFW fee;
- Establishment of six limited duration positions for retired troopers for natural resource enforcement. The positions are financed by funding already in the budget for temporaries; and
- Increased funding from the federal government ($637,500 FF) for enforcement and protection of anadromous fish. The funds will be used for increased patrol hours, information systems support, and lease of aircraft and watercraft.

OSP – Human Resource Services, Training and Criminal Justice Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	26,761,795	25,685,080	23,220,544	34,402,162
Other Funds	2,400,981	2,573,351	2,619,919	1,444,109
Federal Funds	32,789,237	56,195,312	56,255,516	56,508,275
Total	**61,952,013**	**84,453,743**	**82,095,979**	**92,354,546**
FTE	156.25	151.13	132.15	164.83

Program Description

The ***Human Resource Services Division*** includes the Office of the Superintendent, financial services, fleet management, labor relations, and other agency-wide support and staff. This Division also includes the leadership staff and support staff for the Central Operations Command and the three regions. The significant increase in the budget for the Human Resources Services Division is the transfer of the dispatch centers to this unit. The ***Training Unit*** recruits, selects, and retains the sworn workforce. Additionally, it provides training and education to all Department employees, coordinates the Citizen Volunteer Program and provides oversight over agency operations. The ***Criminal Justice Services Division*** provides advice to the Governor on criminal justice policies and administers ten federal grant programs. This Division serves as staff to the Governor's Council on Domestic Violence and Governor's Drug and Violent Crime Advisory Board. The Governor's 2003-05 budget for the programs is as follows:

Program Area	GF	OF	FF	Total	FTE
Human Resources and Training	34,401,226	1,443,609	136,169	35,981,004	154.83
Criminal Justice Services	936	500	56,372,106	56,373,542	10.00

Revenue Sources and Relationships

The General Fund supports the majority of the Human Resource Services costs. Training resources are from the allocation of Criminal Fines and Assessment (CFAA) but this revenue source is declining. A portion of the Federal Funds for the Criminal Justice Services Division programs are derived from a number of U.S. Department of Justice (DOJ) grants including Byrne, Violent Offender Incarceration/ Truth in Sentencing, Juvenile Accountability Incentive Block Grant, and the State Domestic Preparedness Equipment Program.

Budget Environment

Training resources have been substantially reduced during 2001-03 and in building the 2003-05 budget. The training budget at the beginning of the biennium was $4.4 million TF and 17 positions. Between the special sessions, the defeat of the January 2003 tax measure (HB 5100), and the OSP rebalance; six positions and over 80% of the services and supplies in the budget for training were eliminated. A further five positions are reduced in developing the Governor's 2003-05 budget due to a decline in the Criminal Fines and Assessment (CFAA), a major source of revenue for OSP training. Without sufficient training resources, staff can not keep pace with changes in the law as well as advances in the technology and science related to law enforcement.

The Criminal Justice Services Division will be administering and coordinating 10 programs involving over $56 million. In 1995-97, when it was first established, it only managed three grants involving about $12 million. The Division's role has also grown from a pass-through agency to a grant management agency involved in providing central information to various components of the criminal justice community, as well as coordinating activities related to applications, reporting, monitoring, and program evaluation. The grant funds are passed through to 250 sub-grantees including county, city and non-profit organizations. The Federal Funds expected to be available for use in 2003-05 is $56 million, which is larger than the $51.5 million in 2001-03.

The Department was instructed to sell its two King Air planes during 2001-03 and funding was removed from the 2001-03 budget. As of the end of February 2003, the Department sold one plane but at an amount much less than anticipated. The second plane has continued to be used by OSP, the Governor's Office, and other state agencies. The pilots are not dedicated pilots, but are troopers who have other assigned duties. The current plan is to offer the second plane for sale by the end of the 2001-03 biennium.

The Department's reorganization plan moves the dispatch centers to the Human Resources Services Division from the Office of Information Management, and the SWAT and MRT team resources from the Patrol Division.

Throughout the 2001-03 biennium, significant reductions have occurred in these units. Between the budget passed by the 2001 Legislature and the authority after the January 2003 tax measure vote, the General Fund for these programs was reduced by $2.6 million or 10.1%. This reduction is after the almost $700,000 GF increase required to meet salary adjustments. Major reductions include:

- Reduced six positions and $1.6 million GF in training resources (see discussion above);
- Eliminated positions in Human Resources Services during the special sessions including a webmaster, support positions in the field, inspectors, public information officer, stockroom manager, aviation related staff, and labor relations staff;
- Reduced the Human Resources Services budget by $800,000 GF assuming that at least one of the King Airs would be sold. Funding was also removed in the 2001-03 budget passed by the 2001 Legislature. One plane has been sold at this point to realize the revenue to offset this cut;
- Eliminated a further 43 positions in Human Resources Services due to the defeat of the January 2003 tax measure (HB 5100) including positions related to support staff in the field and central office as well as staff relating to fiscal services, payroll, personnel, stockroom support, and labor relations.

Governor's Budget

The Governor's 2003-05 budget for Human Resources Services, Training, and Criminal Justice Services increases by $8.7 million General Fund or 33.9% ($7.9 million TF, 9.3%) from the 2001-03 budget passed by the 2001 Legislature. The major factors for this increase reflect the transfer in of the dispatch functions and the staff coordinating the SWAT and MRT teams ($12.6 million GF and 81 positions). Without these transfers, this combined budget would decrease by $3.9 million General Fund or 15.2% during the same interval. Another increase in these budgets is $2.2 million GF for employee compensation issues. Other major budget issues include:

- The rollup of the 2001-03 reductions included in HB 5100 totaling $4.9 million GF and 43 positions for Human Resources Services and $478,620 GF and three positions for Training. The positions eliminated are outlined above. The magnitude of these permanent reductions and others listed below will leave OSP with over 30% fewer positions to perform the basic administrative, command coordination, dispatch, training, and support services.
- Five management positions and other reductions to services/supplies and capital outlay ($1.0 million GF) were eliminated in Human Resources Services reflecting the 2003-05 rollup of the third Special Session actions. These services/supplies and capital outlay reductions were offset by increases reflecting the restoration of $1.1 million of "administrative cuts" from the second special session (SB 5575) and the rollup of the $1.7 million increase due to the October 2002 rebalance actions.
- A total of eight positions and other costs are eliminated for a total of $1.6 million GF in the training area reflecting the rollup of the reductions made during the third and fifth special sessions, HB 5100 and the October 2002 rebalance. These reductions are partially offset by a restoration of $106,833 GF for the administrative cuts made in the second Special Session.
- Resources for debt service ($627,500 GF) are included for the planned COP issue for new forensics lab and medical examiner equipment at the new lab. Debt service for the lab facility itself is included in the increased rent payment for the Forensics and Medical Examiner Divisions.

OSP – Office of Information Management and Law Enforcement Data System

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	22,204,691	28,588,018	25,224,242	12,338,964
Other Funds	4,263,850	8,227,739	8,234,414	9,052,733
Federal Funds	448,512	139,336	0	0
Total	**26,917,053**	**36,955,093**	**33,458,656**	**21,391,697**
FTE	174.66	177.45	154.68	93.78

Program Description

The Office of Information Management includes the data processing, and telecommunications staff responsible for the design, acquisition, installation, maintenance, and repair of the statewide telecommunications and information management system. This includes the wireless communication section, the information systems section, and the strategic information management section. This Office also maintains the Law Enforcement Data System (LEDS), which connects law enforcement, criminal justice agencies, and other authorized users to central files. These files include 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.

Recent organizational changes have moved the regional dispatch centers to the Human Resources Services Division. The Identification section of the Forensics Division will be combined into the LEDS program in this Office. The Identification Services Section is located in Salem and is comprised of Criminal History, Regulatory Compliance, Automated Fingerprint Identification System, and Firearms programs. These changes are expected to be reflected in the Governor's Recommended Budget.

Revenue Sources and Relationships

This Office is mainly supported by the General Fund but uses Other Funds revenue the sale of surplus equipment. The General Fund supports LEDS; however, it receives Other Funds from charges to user agencies. LEDS terminal fees charged to agencies using the system generated approximately $1.9 million but these are being phased out. In 2003-05, these fees are expected to generate approximately $500,000. Unitary assessment revenue and proceeds of COPs in the past were used to purchase technical and information system equipment but is no longer available. In previous biennia, the Other Funds revenue sources for Identification Services (transferred into this Office in the Governor's budget) include the fees for: open records checks of criminal histories and firearms checks ($6.7 million); fingerprints checks of educators ($1.4 million) Instant Check of handgun purchases ($625,987); and the Board of Investigators ($9,600).

Budget Environment

The budget reductions during 2001-03 included substantial cuts in capital outlay. The 2001-03 General Fund budget for capital outlay at the end of the 2001 regular session was $3.3 million. During the special sessions and HB 5100 reductions, $2.4 million or almost 75% was eliminated from the budget. In the Governor's budget for 2003-05, this budget capital outlay for the Office of Information Management and LEDS is only $39,543. This leaves almost no funding for replacing equipment identified by the Department including outdated phone equipment, communication radios, trucks to service mountaintop repeaters, software upgrades, and network servers.

A major national issue facing OSP and other law enforcement agencies in the state, especially after the September 2001 attacks, is the lack or wireless communications interoperability – the inability of different law enforcement agencies to communicate with each other quickly. OSP must resort to carrying more than one radio in a car but that is only an option in some areas of the state. Without a statewide policy, local jurisdictions are moving forward in replacing systems that meet their local needs but not the needs of other federal, state, and local agencies. There may be federal resources available in the future but may require a statewide plan based on federal guidelines. OSP did include a policy package to begin developing a statewide policy but it was not funded.

A budget note in the 2001 funding bill for OSP required public safety agencies, with State Police taking the lead, to develop a plan with timelines for the comprehensive integration of state and local criminal justice information. The plan was to identify and address barriers to such a system, and to assess if the existing Criminal Justice Information Standards (CJIS) structure can contribute to this plan. The Department of Administrative Services stepped in to determine the best approach to this and put on hold further work on the project until state and local commitment can be assessed. The 2001 Legislature also provided funding for a data warehouse for public safety agencies. Work on this project was limited and is phased-out in the 2003-05 budget. A budget note for the data warehouse instructed OSP to put together a plan, project scope, staffing requirements, and other information regarding the warehouse and present it to the Joint Legislative Committee on Information Management and Technology. OSP presented its report in September 2002.

Budget reductions for 2001-03 totaled $3.4 million General Fund or 12% between the budget passed by the 2001 Legislature and after the implementation of the cuts in HB 5100. Major reductions include:

- Twenty three positions were eliminated during the second special session including dispatch staff (which was part of the division during 2001-03), wireless communications, LEDS and information systems support. There also was $1.2 million TF of reductions to capital outlay and services/supplies during this special session.
- Further capital outlay reductions totaling $968,000 were taken during the third and fifth special sessions and in filling the gap between salary needs and the amount allocated for this purpose.
- An additional 41 positions were eliminated due to HB 5100 in data entry, application/technical support for information systems, wireless communication support, dispatch and information oversight (including the Department's Chief Information Officer). Another $1.0 million was cut from capital outlay deferring system development and replacement of equipment.
- A further 13 positions are left vacant to meet the gap because of the statewide December 2002 revenue shortfall including further dispatch staff.

Governor's Budget

The 2003-05 Governor's budget for the Office of Informational Management including LEDS is $16.3 million General Fund or 57% less than the 2001-03 budget passed by the 2001 Legislature. Much of the reduction reflects organizational changes between divisions but also represents increases exceeding $1.0 million GF for employee compensation issues. After taking into account the reorganization changes in the Governor's budget, the total number of positions for this Office is 41% less than the number in the 2001-03 budget passed by the 2001 Legislature. Major features of the Governor's budget include:

- Over $7 million of one-time purchases and costs for the C-4 building is removed from the budget. This is over and above the elimination of almost all capital outlay resources discussed above.
- OSP reorganization changes reflected in the budget include the transfer out of the Dispatch functions to Human Resources Services and the transfer in of Identification Services from Forensics. The net change to the budget is the loss of $9.0 million GF (Dispatch functions and the addition of $8.2 million OF Identification Services). Net loss of positions is 16.
- The total reduction due to the rollup of 2001-03 special session (3rd and 5th) and HB 5100 cuts outlined above is $8.4 million GF and 43 positions. An additional 23 positions ($2.7 million GF) including dispatch related positions are reduced as a result of the rollup of second special session cuts.
- Additional resources are added ($1.0 GF) due to the changes in the October rebalance including increases in personal services for labor issues and specific services and supplies needs.

OSP – Gaming Enforcement

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	55,099	0	0	194,706
Other Funds	6,932,705	7,675,753	7,887,069	8,294,761
Federal Funds	567	0	0	0
Total	**6,988,371**	**7,675,753**	**7,887,069**	**8,489,467**
FTE	44.75	42.00	42.00	42.00

Program Description

The Gaming Division ensures fairness, honesty, integrity and security of the Oregon State Lottery and tribal gaming centers operating in Oregon. The State Lottery was established in 1985, and tribal casinos were first authorized in 1993. Since 1993, the Boxing and Wrestling Commission has operated from within the Department to ensure the integrity and honesty of boxing and wrestling events.

Revenue Sources and Relationships

The Lottery Commission fully funds Lottery security services ($5.0 million) and the Native American Tribes fully fund Indian Gaming Enforcement activities ($3.4 million). License fees partially fund the Boxing and Wrestling Commission regulatory activities ($10,014). A pay-per-view gross receipts tax on closed circuit boxing and wrestling events was declared unconstitutional, so that 90% of the Commission's revenue source is no longer available. General Fund resources were added to backfill the lost revenue. Seventy five percent of any ending balance for the Boxing and Wrestling Commission are sent to the Children's Trust Fund.

Budget Environment

The demand for Department investigative services continues to grow due to new contracts and new lottery games. The Lottery Commission began with one game and now offers approximately 80 scratch-it games and 40 break-open ticket games per year. Currently, the Department monitors over 9,700 video lottery terminals located at almost 2,000 retail locations; conducts background checks on retail contractors, retail employees, and major vendors; and provides weekly oversight of megabucks, keno, power ball, and sports action games. The number of background checks continues to grow. For example, in 2000, OSP conducted 475 background checks on retailers and in 2001 there were 551 checks performed.

Currently, there are eight tribal casinos operating 5,100 slot machines. This is an increase from only 2,600 machines in 1995. Another tribal government (Coos Bay) may open a gaming center in the near future in the Florence area. Some of the existing casinos are also considering expansions in their gaming centers.

Governor's Budget

The Governor's 2003-05 budget for this Division is $813,000 Total Funds or 10.7% greater than the 2001-03 budget passed by the 2001 Legislature. This increase is primarily due to employee compensation issues including the rollup of salary increases, health cost growth, and PERs. The loss of the closed circuit and pay-for-view revenues (estimated at $273,000 for 2003-05) for the Boxing and Wrestling Commission requires the backfill of $194,706 GF to keep the program operating. Additional funding from the Lottery and the tribal gaming program are used to backfill the lost Commission revenue that was used to fund a portion of the divisional captain's costs.

OSP – Office of Emergency Management

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,065,525	1,605,505	1,386,774	1,694,156
Other Funds	1,606,698	57,654,541	57,729,296	63,936,901
Federal Funds	6,590,247	7,102,386	7,180,857	7,375,136
Nonlimited	87,403,450	21,359,947	25,359,947	21,359,947
Total	**96,665,920**	**87,722,379**	**91,656,874**	**94,366,140**
FTE	39.00	34.00	32.29	32.00

Program Description

The Oregon Emergency Management Division (OEM) is the lead agency in responding to emergencies across the state and coordinates a statewide emergency services system. This system incorporates the separate local and state emergency service elements into a comprehensive capability to prepare for, respond to, and recover from disaster conditions. Activities include preparedness planning and the development and implementation of mitigation strategies. OEM maintains the 24/7 Oregon Emergency Response System (OERS) as a single point for reporting and coordinating emergencies that might require state and/or federal assistance. The Office is responsible for administering grants used to respond to emergencies and for hazard mitigation.

OEM is also responsible for the statewide administration of the 9-1-1 system. It provides funding to local systems and leads in developing and implementing new technology in the system. The Office also administers the Chemical Stockpile Emergency Preparedness Program (CSEPP) in Eastern Oregon. The CSEPP works with communities to insure that local and state plans are in place to respond to issues at the Umatilla Army Depot.

Revenue Sources and Relationships

The 9-1-1 Emergency Telephone Systems Program is funded by a dedicated flat monthly rate of $0.75 for all devices (wired telephone, wireless phone, or fax machine) capable of accessing 9-1-1 services ($53 million OF). These funds are distributed in accordance with a statutory formula with the majority of the funds being distributed to local government for the operation of local public safety answering points (PSAPs). This revenue source is scheduled to sunset on January 1, 2008.

The major funding federal source for OEM is FEMA funds received for general OEM operations, development and administration of the emergency response infrastructure, training, and grants passed through to local governments for their emergency management programs. These funds require a 50% state or local match. Funding for responding to presidential declared disasters and pre-disaster mitigation is available from FEMA and requires a 25% state or local match. FEMA funds are also being made available for terrorism related activities and at this time do not require state or local match. There is also funding dedicated for the CSEPP program (no match required) to pay for OEM and for local grants.

Budget Environment

In December 2001 Governor Kitzhaber issued an executive order elevating the Office of Emergency Management to the level of a state department. Making this a permanent change it will require a change in statute and likely additional staff resources (e.g., fiscal staff) for it to be administered as a separate agency. In addition, OEM will be moving to a new location in Salem by the end of the 2001-03 biennium (C-4 building). The move will provide the opportunity to operate a secure emergency agency and to partner with other units of OSP to insure 24 hour coverage of the OERS function.

As of January 2000, all of Oregon's population was served by Enhanced 9-1-1 services provided from 56 Primary PSAPs. Fourteen of 36 counties have multiple PSAPs. The 1999 Legislature directed OSP, DAS, and the Governor's Office to work with a 9-1-1 Advisory Committee work group in an effort to develop a more coordinated emergency response system and assess whether there are more cost-effective and efficient ways to provide medical, fire, and officer dispatch services. A consultant concluded that one PSAP per county achieves the maximum practical benefits of consolidation, while preserving local control. The 2001 Legislature required each county to prepare a consolidation plan for the PSAPs operating in their county and present those plans to OEM. If a county was unable to come together with a single plan, OEM was to work with officials in that county in preparing the plan. OEM is expected to report to the 2003 Legislature on those plans. The 2001 Legislature also limited the amount of funding available for funding the 9-1-1 system to $56 million for 2001 anticipating the remaining funds would be available in the future to provide incentives for consolidation. These funds were subsequently used to fill the statewide budget gap during the 2002 third special session.

Terrorism related funding has started to flow from the federal government. The initial $1.2 million is for hazard emergency operations planning with the requirement that 75% be transferred on to local government. Additional federal funds are designated to go for CERT team training and developing local citizen corps councils. The most recent budget passed by Congress provides funding for a number of terrorism related activities but funding distribution and eligibility detail has yet to be determined.

The Department continues to support the Chemical Stockpile Emergency Preparedness Program (CSEPP) relating to the incineration of chemicals at the Umatilla Army Depot. To date, over $72 million have been provided to Oregon in support of building an "adequate" emergency preparedness program in Morrow and Umatilla counties. In June2002, then Governor Kitzhaber signed a letter indicating the CSEPP had met the "adequate" criteria which required that an emergency preparedness program was in place and operational for protecting the public in the area. Major projects in CSEPP's latest funding request include evacuation infrastructure improvements, tactical radio communications, additional respiratory protection equipment and an incident response information system for first responders. There is uncertainty at this time what the impact of the creation of the new Homeland Security Department will have on the program and the relationship between the Army and FEMA.

OEM has lost approximately $200,000 in the 2001-03 budget during the budget shortfall actions including the failure of the tax measure in January (HB 5100). Two positions were eliminated; a planner position which supported state and local agencies in maintaining the State's Emergency Operations Plan, and the Earthquake and Tsunami coordinator who is responsible for administering all of the mandated earthquake related activities.

Other GF reductions included changing the revenue mix for funding positions utilizing Other and Federal Funds sources. This funding mix change does mean that OEM loses total funds since the federal funds are no longer matched with the GF that is cut.

Governor's Budget

The 2003-05 Governor's budget for the Office of Emergency Management increases by $6.6 million Total Funds or 7.6% ($88,651 GF, 5.5%) from the 2001-03 budget passed by the 2001 Legislature. The General Fund increase is due primarily to employee compensation issues offset by the rollup of the 2001-03 actions including the elimination of the planner and earthquake coordinator positions. The funding for the additional rent at the new C-4 building is included as well as a new Geographic Information System (GIS) position funded through 9-1-1 funding. The CSEPP public information officer position is transferred to Umatilla County. Finally, the budget for the 9-1-1 program is adjusted upward by $6 million to reflect the anticipated revenue growth.

OSP – State Fire Marshal

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	725,485	0	1,296,965	0
Other Funds	13,170,712	13,498,929	13,950,089	14,819,232
Federal Funds	14,288	217,745	217,745	458,536
Total	**13,910,485**	**13,716,674**	**15,464,799**	**15,277,768**
FTE	80.71	80.67	80.75	72.00

Program Description

The Office of the State Fire Marshal is charged with protecting life and property from fire and hazardous materials. It has the following five major program areas:

- ***Fire and Life Safety Services*** which is responsible for fire prevention and investigation, emergency response including the Conflagration Act, administration of the Uniform Fire Code, and regulation of explosives, fireworks, and liquid petroleum.
- ***Education and Data Services*** which provides technical assistance on prevention, serves as the statewide clearinghouse for information, administers the juvenile fire-setter intervention program, and provides a database of fire incident reports.
- ***Non-Retail Flammable Liquid Fuel Dispensing*** which regulates and provides assistance to non-retail fuel dispensing providers.
- ***Community Right to Know*** which administers the Community Right to Know law, collects and maintains data on hazardous substances, and insures state and local jurisdictions are prepared to respond to incidents.
- ***Regional Hazmat Response Teams*** where the Fire Marshal develops, monitors, and trains the 14 local teams to insure timely and complete cleanup of incidents.

There are 17 Deputy Fire Marshals who serve Oregon communities that cannot provide their own full-service fire prevention programs. Because of revenue shortfalls, some of these positions have been left vacant.

Revenue Sources and Relationships

The major Other Funds revenue source for the Fire Marshal is the Fire Insurance Premium Tax (FIPT) which is assessed on insurance companies based on the premiums they collect for property causalty insurance. While this revenue source has generated almost $10 million OF in past biennia, it is expected to fall dramatically to $3.7 million in the Governor's 2003-05 budget under current law (see discussion below). A portion of the FIPT funds are transferred to the Department of Public Safety Standards and Training ($591,680) and the Criminal Investigation Division of OSP ($709,100). The Governor's budget assumes another $6.0 million for the three programs in a yet to be identified revenue or change in law to backfill a portion of the positions and activities the FIPT has funded in the past.

Other Funds revenue supporting the Fire Marshal programs also include non-retail fuel dispensing fees ($0.6 million) for card lock enforcement, hazardous substance user fees ($3.0 million) for the Community Right to Know program, and petroleum load fees ($2.5 million) for the Hazardous Response Teams. The remaining revenue is generated from licenses and permits (relating to liquefied petroleum gas, explosives, and fireworks) and from an interagency agreement with the Department of Human Services (DHS) for fire and life safety inspections of Medicare and Medicaid funded facilities.

Budget Environment

The Fire Insurance Premium Tax (FIPT) is the source of funding for the fire prevention and investigation functions of the Fire Marshal and is collected as a set percentage of the premiums paid to insurance companies. In the past, this revenue source was sufficient to fund these programs as well as OSP arson investigation and fire training for DPSST. For the past year, FIPT revenue has fallen significantly as a result of the financial health of the insurance industry. The Oregon Insurance Guarantee Association (OIGA) was created to pay the outstanding claims of companies that have gone out of business and is funded through assessments on insurance companies operating in Oregon. These assessments have been increasing as the number of claims paid by the Association has increased. OIGA assessments paid by insurance companies can be taken as a credit first against the income tax owed by the insurance company (up to 20% of their assessment annually) and then as a credit against the FIPT. Since very few insurance companies will have significant taxable income in the near future because of the higher claims and lower investment earnings, a greater amount of this growing assessment is being taken as a credit against the FIPT. This has lead to the substantial decrease in FIPT revenue available to fund programs; and it is anticipated FIPT revenue will be dramatically less in 2003-05 and future biennia without a change in law. Due to the falling FIPT revenue, the Fire Marshal made a number of reductions during 2001-03 including holding positions vacant including deputy fire marshals in the field; reduced consultation with local fire agencies; reduced inspections and code enforcement; delayed equipment purchases; reduced public information outreach; and reduced administrative costs.

Based on information from 41 of the 50 states and the District of Columbia, funding sources for Fire Marshal programs vary significantly. Only six states, including Oregon, rely on the FIPT to fund all or almost all of their programs. Two states rely totally on fees while another four states rely on fees for a specific part of their program. Fifteen states, including California, Nevada, and Washington, rely on general funds as their primary funding source. The remaining states included in this information a mixture of funding involving an insurance tax like FIPT, fees, or general fund resources.

Fire Marshal staff assist all but nine of the 345 fire agencies that have their own prevention or inspection staff. The state staff has proportionately fewer staff per capita than local prevention programs. Based on 1999 populations, there is one state staff for each 111,000 people in the areas the state covers while the local agencies range from one to 3,126 in Coos Bay, one to 11,386 in Portland, and one to 19,750 in the Tualitan Valley Fire and Rescue service area. Staff reductions over the past few years have resulted in fewer inspections by state staff – peaking at 6,998 in 2000 and dropping to an estimated 4,100 for 2002. State Fire Marshal deputies have been inspecting only the most critical facilities (schools, day care centers, special residential, corrections, flammable tanks, and community target facilities) and they are not always able to inspect them in a timely manner. The number of statewide fire fatalities continues a downward trend from the peak of 90 per year in the mid 1970s to 40 in 2001. The number does vary from one year to another; for example, the preliminary number for 2002 is 48 but the long term trend continues down.

The Petroleum Load Fee, which funds the hazardous substance program and the local Haz-Mat teams, has generated revenue greater than what is currently needed. A $4.7 million beginning balance exceeds the amount required, and the Fire Marshal and the industry are reviewing the current level of the fee. They will need to balance the fee revenue and the amount requested in a 2003-05 policy package prior to adjusting the fee.

Governor’s Budget

The 2003-05 Governor’s budget for the State Fire Marshal is $1.6 million Total Funds or 11.4% greater than the 2001-03 budget passed by the 2001 Legislature. Other Funds revenue represents 97% of the total budget for this division. The majority of the increase ($1.5 million) is due to employee compensation issues. This budget reflects the anticipated loss of revenue from the FIPT and revenue for the card-lock program. Initially, 14 positions were designated to be reduced because of the falling revenue. This Governor’s budget assumes adding back five of these positions funded in part by fee increases relating to liquid petroleum gas (LPG), fireworks, explosives, and for inspections of certain facilities licensed by the Department of Human Services. The anticipated revenue from these increases is $187,352 OF. The addback of these positions also is financed by a yet to be determined revenue source or change in the FIPT tax. The eight positions that are eliminated by this budget include: (1) a Planning Education manager; (2) two Deputy Fire Marshals, one assigned to the Fire Code and the other designated for state properties primarily in Marion County; (3) a support staff position in the

Explosives program; (4) a data services manager; and (5) three Cardlock program staff including two inspectors. The Governor's budget also includes a $634,183 increase in OF for adding a fifteenth Haz-Mat team (Salem) and for equipment replacement and training. A federal planning grant for the Hazardous Materials program ($235,000 FF) is also part of the budget.

Department of Public Safety Standards and Training – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	17,018,755	25,399,456	102,213,257	20,862,843
Federal Funds	536,741	210,000	849,000	217,350
Total	**17,555,496**	**25,609,456**	**103,062,257**	**21,080,193**
FTE	102.22	108.37	108.37	93.25

Program Description

The Department of Public Safety Standards and Training (DPSST) is responsible for developing and maintaining standards for employment and providing training to over 30,000 public safety professionals and volunteers in Oregon through four programs:

- The ***Criminal Justice Training and Certification Program*** provides training and certification for police, sheriff deputies, correctional officers, parole and probation staff, 9-1-1 telecommunicators and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from 10 weeks for the basic police course, five weeks for the corrections officers, four weeks for parole and probation staff, two weeks for telecommunicators, and one week for emergency medical dispatchers. The administrative functions of the agency are also included in this program unit.
- The ***Fire Training and Certification Program*** provides training across the state for professional and volunteer firefighters. This program also certifies firefighters, and accredits fire departments and local training programs that attain minimum standards. The program depends both on DPSST staff and volunteer staff from local fire agencies to assist departments in training.
- The ***Private Security Program*** provides training and certification to private security personnel that meet minimum requirements. There are over 450 private security firms and 6,000 private security officers statewide in 2001.
- The 1999 Legislature established the ***Public Safety Memorial Fund*** to provide financial assistance to family members of public safety officers who are killed, or are permanently and totally disabled in the line of duty. A six member board administers this Fund.

DPSST provides training at its site in Monmouth as well as across the state in regional settings. It has branch offices in four locations. The agency has professional trainers on staff but also relies on part-time trainers who are practicing professional in their fields from local public safety agencies. The director of DPSST reports to a 23-member Board.

Total Funds by Program

	Criminal Justice	**Fire**	**Private Security**	**Memorial Fund**	**Capital Construction**
1999-01 Actuals	15,277,484	1,089,404	946,844	241,764	0
2001-03 Leg. Approved	2,2693,058	1,687,045	1,044,654	517,500	77,120,000
2003-05 Governor's Budget	18,334,647	1,554,765	1,047,463	143,318	0

The capital construction figure for 2001-03 is a one-time increase for the new Salem training facility. Construction was to occur during the 2003-05 biennium but has been delayed at least to 2005-07.

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fines and Assessment (CFAA) Account funded by the unitary assessment added to fines and forfeitures. The 2001 Legislature passed HB 2877 and HB 5050 which divided funding between the General Fund (70.35%), and then allocated the remainder (29.65%) to the Public Safety Account for specific programs. HB 2877 also established a priority order for the distribution of the Public Safety Fund: (1) first for DPSST facility and program costs and other state law enforcement training; (2) then compensation and assistance for victims of crime; and (3) finally emergency medical services. This program is also funded with polygraph examiner licensing fees and miscellaneous receipts ($399,725), a grant from ODOT ($399,725), revenue from the 9-1-1 telephone tax ($394,090) for the 9-1-1 telecommunicators and emergency medical dispatchers training, and a federal grant from the Federal Emergency Management Agency or FEMA ($165,600).

The primary revenue source for the ***Fire Training and Standards Program*** is the Fire Insurance Premium Tax ($1.2 million). This revenue source has not kept pace with the growth in the fire related programs across state government and is expected to fall significantly in 2003-05. This program also receives funding from a federal FEMA grant for training developed by the U.S. Fire Academy ($51,750). The ***Private Security Program*** is funded with licensing and certification fees ($1.3 million) and assumes a fee increase for 2003-05. The CFAA has funded the ***Public Safety Memorial Fund*** in the past but there is sufficient funding in the beginning balance for the budgeted amount in the Governor's budget.

Budget Environment

At its October 2002 meeting, the Emergency Board increased the Other Funds Capital Construction expenditure limitation by $72.3 million; and gave approval to DPSST to go ahead with construction of the new training facility in Salem. DPSST asserts one major reason this new facility is required is to expand the basic law enforcement training course for police from 8 to 16 weeks as instructed by the 1997 Legislature (currently it is at 10 weeks). The current facility has insufficient space to train and house the course participants and DPSST must also use off-site facilities to provide some of the training. In addition, there have been discussions to also move the Oregon State Police training program at the new Salem site from its current leased facility at Camp Rilea. The October Emergency Board action would have allowed the facility to open in late 2005 and would have required over $8 million in debt service funded by CFAA in the 2003-05 budget. The Governor's budget assumes that construction is delayed at least through the end of the 2003-05 biennium.

Two of the major funding sources for DPSST are not keeping pace with program growth causing the agency to make cuts in 2001-03. The CFAA revenue did not meet the amount projected during the 2001 legislative session. DPSST and other agencies anticipated significant cuts during the biennium to stay within revenues. Major reductions were avoided mainly by transferring CFAA resources originally allocated for debt service on the new DPSST facility to other programs since construction on the project was delayed due to siting issues. Of the $3.9 million allocated for debt service, less than $200,000 is actually required for the 2001-03 biennium. DPSST has left a number of CFAA funded positions vacant which are also not included in the Governor's budget. Depending on the level of reductions made in the 2003-05 budget for public safety agencies both at the state and local levels, future funding for CFAA could be reduced further as fewer citations are issued, fewer prosecutions by District Attorneys occur, or other activities are reduced that generate CFAA revenue.

The other major funding issue is the Fire Insurance Premium Tax (FIPT). The Oregon Insurance Guarantee Association (OIGA) was created to pay the outstanding claims of companies that have gone out of business. The OIGA is funded through assessments on insurance companies operating in Oregon. These assessments have been increasing as the number of claims paid by the Association has increased. OIGA assessments paid by insurance companies can be taken as a credit first against the income tax owed by the insurance company (up to 20% of their assessment annually) and then as a credit against the FIPT. Since very few insurance companies will have significant taxable income in the near future because of the higher claims and lower investment earnings, a greater amount of this growing assessment is being taken as a credit against the FIPT. This has led to the substantial decrease in FIPT revenue available to fund this program; and it is anticipated FIPT revenue will be dramatically less or eliminated in 2003-05 and future biennia without a change in law. Reductions (vacant positions) were taken in 2001-03 to adjust for the falling revenue. Even before this current revenue shortfall, DPSST and other agencies funded with FIPT resources (e.g., Fire Marshal) were concerned about its long-term viability as a stable funding source.

Oregon's basic training for law enforcement is the shortest in the country based on a national 2000 survey of police chiefs. The average number of weeks for training across the country for the 31 states and Canadian provinces that were part of the survey results was just under 22 weeks while Oregon's basic course is only 10 weeks long. The 1997 Legislature instructed the agency to increase the course from the then eight weeks to 16 weeks. This will be delayed until the new facility is built and is fully staffed. Other public safety groups would like to increase their length of training courses which is also constrained by the current DPSST facilities and staffing. For example, the basic corrections course is currently five weeks in length and correctional agencies would like to increase that to seven weeks. Training not provided by DPSST must, in part, be provided by the law enforcement agency with their own resources.

Continued growth in Oregon population and policy changes made by past legislatures has created more demand for public safety training and certification services in recent years. DPSST has over 33,000 "constituents" (2000 Employment Department data) including almost 8,000 law enforcement personnel, 650 parole and probation officers, over 4,000 correctional officers and jailers, 11,600 fire related personnel, 1000 emergency telecommunicators, and over 6,000 private security personnel. Trends affecting the demand for DPSST services include:

- There has been growth in law enforcement officers (police and sheriff staff) statewide in recent years. The budget constraints of the state and local government may decrease the number of new officers. In the year 2000, even before the current budget constraints, Oregon had the lowest number of full-time sworn state and local law enforcement officers responding to calls per 100,000 residents.
- The growth in prison and jail population in the recent past, in part because of Ballot Measure 11 and SB 1145, has increased the demand for correctional officer training. This growth may be slowing since major prison construction at the state level has been delayed because of budget constraints. Growth in local jails will also slow in the near future since major construction due to SB 1145 (Community Corrections Act) is nearing completion. Another factor affecting the corrections course demand is the state and local financing situation. For example, many counties are unable to fund the jail staff necessary to fill their actual physical capacity.
- Since most of the professionals certified and licensed by DPSST are public employees, any major changes in the Public Employee Retirement System (PERS) could result in an increase in retirements. New staff will need to be hired to replace the retired professionals and they will need to be trained and certified.
- The number of private security staff licensed by DPSST could increase as more commercial and other interests look at private security agencies as alternatives to depending on local law enforcement agencies strapped by funding constraints.
- The business plan prepared by DPSST outlines major expansions in response to needs identified by interest groups. These included the increase in the length of the basic police course, the desire for more "continuing education" for many public safety professionals, and development of new training curriculum.

The same business plan outlines ways to more effectively deliver services including distance learning, more regional training where appropriate, greater use of staff of local public safety agencies instead of full-time DPSST staff, increased training of the instructors, and partnerships with community colleges and other agencies. Regional training continues to be an important component in DPSST's overall curriculum. Between the fire training and law enforcement training programs, over 15,000 "students" will participate in some form of regionally provided training.

Governor's Budget

The Governor's budget for 2003-05 of $21.1 million Total Funds is $4.5 million or 18% less than the 2001-03 budget approved by the 2001 Legislature. The reduction reflects the estimated revenue losses to Criminal Fines and Assessments (CFAA) and the Fire Insurance Premium Tax (FIPT) as well as the decrease in the debt service. This budget reflects the decision made by the Governor not to proceed with the construction of the new training facility in Salem until after the 2003-05 biennium.

Criminal Justice Standard and Certification: The Governor's budget reduces the resources for this function mainly driven by the falling level of CFAA revenues. The basic training courses at the academy are maintained. Other programs such as regional and specialized training are hit harder by the decreases. Reductions in this program area include:

- Regional training is reduced by four positions along with cuts to services and supplies/capital outlay ($683,482 OF). This represents a cut of approximately 40% to this program. This cut also eliminates funding for the resource center which provides training material and information to local law enforcement agencies.
- The Accreditation unit is eliminated along with the three positions ($400,284). This unit certifies other programs in the state (e.g., community colleges) that may be used to augment DPSST's training programs.

- The Distance Learning unit is eliminated along with the two positions ($455,286). This staff developed technology curriculum and training that could be used out in the field.
- The Curriculum unit is reduced by three positions ($376,526). Positions cut include the testing coordinator and another position responsible for the coordination between curriculum development and actual training.
- Services and supplies are reduced and capital outlay is eliminated ($153,510). This will significantly reduce the purchase of new training equipment and increase the replacement cycle for equipment.
- Specific subject training resources are reduced including: (1) elimination of the Public Safety Executive Training Seminar and the Oregon Executive Development Institute ($205,138); (2) elimination of funding for the DARE program ($12,247); and (3) reduction of the child abuse training program by 50% ($145,493).
- Administrative services will be cut by two positions ($315,950) reducing resources for accounting, payroll, and administrative support.

Fire Standards and Training: This unit loses one position ($153,510) providing regional training services. One other position and $671,352 of this program's budget is dependent on a yet to be identified source of revenue to replace the lost Fire Insurance Premium Tax (FIPT) revenues.

Private Security: The Governor's budget assumes a fee increase in the program to support one position ($175,943). The existing revenue stream is anticipated to lose over 16% of its revenue without the fee increase.

Memorial Fund: Because of falling CFAA revenues, this program was significantly reduced by $392,120 to $143,318. No new CFAA revenues are allocated to this program in the Governor's budget, but a beginning balance is used to provide resources for the reduced program.

Oregon Youth Authority (OYA) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	205,465,537	229,468,283	220,043,170	201,112,085
Other Funds	15,329,455	12,126,628	15,968,307	12,025,792
Federal Funds	24,830,368	28,491,704	27,472,725	24,669,594
Total	**245,625,360**	**270,086,615**	**263,484,202**	**237,807,471**
Positions (FTE)	1,233.05	1,279.96	1,278.29	971.41

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

OYA manages out-of-home placement of delinquent youth in foster homes and residential treatment programs, provides parole and probation services, provides funding to counties for diversion and transition programs, and operates the state juvenile corrections institutions. In the 2001-03 biennium, it will operate 12 separate facilities across the state, although budget reductions will result in the closure of four facilities in the spring of 2003. OYA's facilities and services must address diverse needs for males and females; very young through young adult ages (12 to 25); differing ethnic groups; offenders whose crimes range from behavioral offenses and property crimes to person-to-person crimes; and mentally ill and developmentally disabled offenders.

OYA's jurisdiction includes youth committed from both the juvenile and adult courts. Youth can be committed to OYA from juvenile court from as young as age 12. There are no mandatory sentences for juveniles whose cases are heard in juvenile court. Youth committed to OYA through adult court are in the legal custody of the Department of Corrections (DOC) but the physical custody of OYA. OYA may keep youth until their 25th birthday, but may transfer offenders committed through adult court back to DOC earlier if they are dangerous or do not apply themselves. Ballot Measure 11 (1994) set mandatory sentences through adult court for juveniles aged 15-17 who are convicted of certain offenses. As of July 1, 2002, about 72% of the 1,099 youth in close custody had been adjudicated in juvenile court; 28% were adjudicated in adult court on waived offenses or Measure 11 offenses.

Revenue Sources and Relationships

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

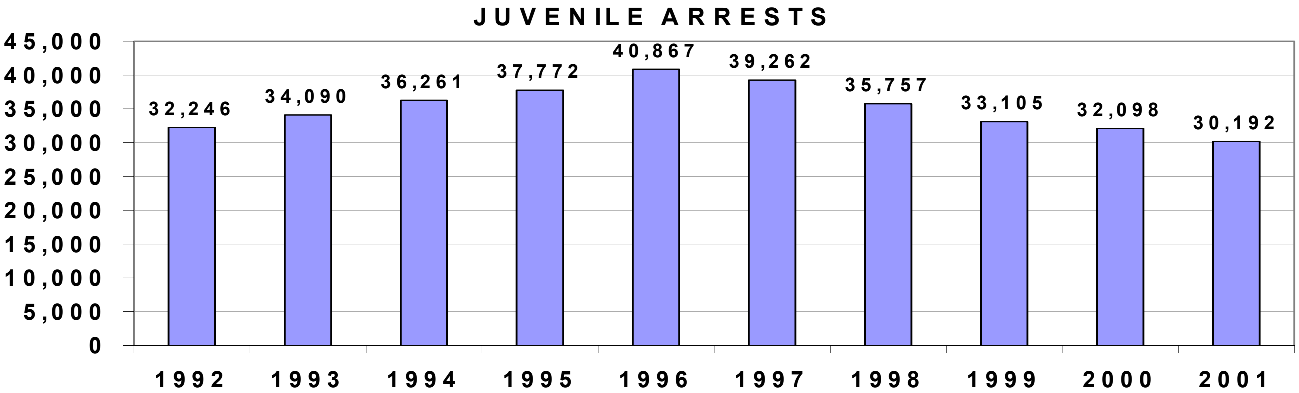
Federal Funds revenues reflect Title XIX Medicaid reimbursements, which pay for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Title XIX reimburses 50% of eligible administrative costs and about 60% of eligible case management expenditures. Title XIX Behavioral Rehabilitation Services funding helps pay for eligible residential treatment services at about a 60% match rate; residential maintenance costs are supported only by General Fund. The 2001-03 legislatively adopted budget projected $28.5 million of Federal Funds; however, as services are reduced due to budget reductions, the Medicaid reimbursements will decline as well.

Federal funding generally is not available for juvenile corrections institution operations. However, federal nutrition program funds of $2.6 million supplement meal costs; the alcohol and drug treatment program at Hillcrest gets $110,000 in federal funds. OYA records these as Other Funds.

The largest Other Funds sources are county contracts and reimbursements. The 2001-03 legislatively adopted budgeted anticipated $4.8 million from counties that contract with OYA to operate the detention beds located in OYA's regional facilities in Warrenton, Albany, and Burns. With the closure of these regional facilities for OYA youth, it is uncertain if the counties will continue to operate those detention beds. Other Funds sources include $4 million from child support and assets of the youth, who are billed for a small part of the cost of care provided in OYA out-of-home placements. As budget reductions result in fewer youth served in the close custody facilities and community programs, these collections will decrease.

Budget Environment

As the chart below shows, total arrests for juveniles (excluding curfews and runaways) grew significantly in the early 1990s, but have declined since 1996. Juvenile arrests in 2001 were down 26% from the 1996 peak. Behavioral crimes, such as alcohol or drug law violations, now make up a greater share of arrests. Behavioral crimes grew from about one-third of all arrests in 1992 to more than half of the 2001 arrests. Person and property crimes have actually declined since 1992.



The Department of Administrative Services' Office of Economic Analysis (OEA) prepares a juvenile close custody population forecast every 6 months. In its October 2002 forecast, OEA notes that the OYA close custody population dropped 7.3% (85 beds) between August 2000 and September 2002, and annual intakes dropped 24% between fiscal years 1999 and 2002. The forecast advisory group citied three general reasons for the drop in intakes: more local program and treatment options (some funded by new juvenile crime prevention money added in 1999 to increase resources for at-risk youth and expand basic county services such as detention and shelter care capacity); a decline in juvenile referrals; and bed reductions directed by budget actions.

The October 2002 forecast predicts juvenile arrest rates for 15 to 17 year olds will increase slightly over the next several years, but remain much lower than during the 1980s and 1990s. OYA's average length of stay has increased significantly over the past several years, primarily due to growth in the number of juvenile court sex offenders and adult court inmates. The forecast projects that the close custody population will be at 1,058 on July 1, 2003, growing to 1,125 at July 1, 2005. The juvenile facility population is expected to level out at about 1,300-1,320 beginning in 2010, assuming no change in current law and practice. This forecast does not reflect additional bed reductions made due to the failure of the temporary income tax increase measure in January 2003.

OYA currently has physical capacity for 1,131 close custody beds, with an additional 50 beds expected to be available in spring 2004. This is down from 1,149 beds due to restructuring space at MacLaren to meet standard design capacity. The total counts all beds at the permanently constructed facilities, and temporary structures built at Hillcrest and MacLaren in the 1995-97 biennium.

Both the institutions and community programs face challenges in serving special needs in OYA's diverse population. In April 2002, OYA completed a snapshot survey which indicated over 64% of the youth in close custody had a diagnosed mental health condition, excluding conduct disorder; 6.5% of these offenders had diagnosis of serious mental illness such as schizophrenia or other psychosis, or bi-polar disorder (manic depression). Female offenders, while only about 15% of OYA's total population, require gender-appropriate services. About 25% of the youth in OYA's custody are ethnic minorities, compared to about 13% of Oregonians overall.

OYA's 2001-03 budget was reduced by $6.0 million General Fund for specific reductions in special session actions during the interim. The agency received an additional $4.3 million General Fund for partial funding of employee salary and benefit increases, $1.5 million less than needed to fully fund those increases. To manage the reductions and the salary under funding, the agency used available Other and Federal Funds revenues as one-time offsets to General Fund, delayed computer system purchases, delayed filling vacant positions, eliminated funding for 40 close custody beds, and reduced funding for community programs by 3% for the biennium.

Reductions totaling $7.8 million General Fund were made to meet OYA's share of the pro-rated budget reductions in HB 5100 (2002 fifth special session). These reductions resulted in closing four regional facilities (250 close custody beds for juvenile offenders) and reductions in community programs and county grants. The Governor directed across-the-board agency reductions to offset the December 2002 economic forecast of a $112 million statewide shortfall in General Fund revenues. This required OYA to reduce its 2001-03 expenditures by an additional $2.7 million General Fund. The largest part of this reduction, $2 million General Fund, was covered by one-time hiring freeze savings, but one-time foster care savings and reductions to other treatment services were also identified.

In addition, in March 2003, SB 5548 made budget reductions to eliminate OYA's four area coordinator positions as of April 1, 2003 and end funding for the Deschutes Community Youth Investment Project on June 1, 2003.

Governor's Budget

The Governor's budget for OYA is 12.4% General Fund and 12.0% total funds less than the 2001-03 legislatively adopted budget. It carries forward budget reductions for 2001-03 into the 2003-05 biennium, including $30 million in General Fund reductions from closing four regional juvenile correctional facilities and $14.7 million General Fund in community programs reductions. Under the Governor's budget, close custody capacity will be funded at an average of 800 beds monthly. This level is about 74% of the October 2002 population forecast level. The budget also eliminates inflationary increases for services and supplies expenditures across the agency, and in payments for community programs and county grants. The Governor's budget does not fund any program enhancement packages.

OYA – Community Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	67,379,637	80,666,769	75,068,987	69,910,985
Other Funds	2,459,695	1,582,924	2,495,283	2,449,566
Federal Funds	23,411,846	27,010,848	26,223,245	23,831,598
Total	**93,251,178**	**109,260,541**	**103,787,515**	**96,192,149**
Positions (FTE)	168.50	169.79	169.79	168.29

Program Description

Community programs are designed to provide community-based supervision and services to youth offenders committed to OYA by the juvenile courts. An individual reformation plan is designed and carried out for each youth in OYA's custody. The Community Programs budget consists of three major budget elements: parole and probation services; community care and treatment resources; and county grants.

- Probation services are provided for youth offenders in lieu of placement in juvenile corrections facilities, and parole services support youth offenders who are transitioning out of those facilities. Parole and probation officers provide case management to coordinate supervision, services, and sanctions for youth. For the 2001-02 fiscal year, about 1,460 youth received parole or probation services while in their homes or other community placements.
- Community resources support youth through individualized services in their own homes; foster care and shelter care; residential treatment services; and transition services.
- OYA distributes grants to all counties for diversion programs to reduce commitments to state institutions, and juvenile crime prevention grants that pay for local basic services such as detention and shelter beds. In addition to those statewide grants, Multnomah County receives a grant for gang prevention activities, and Deschutes County received funding to support a delinquent youth demonstration project.

In addition, the Program Office provides program development and evaluation, contract monitoring, coordination of health services, rules and policy coordination, and training and development.

The majority of the Programs budget is spent for services provided through county juvenile departments or contracts with individuals or non-profit service providers. The rest of the budget pays for direct services by OYA staff and program administration, including staff training, program development, and evaluation.

Budget Environment

The agency faces challenges in assuring timely and appropriate community residential services are provided to youth in its care, especially to address sex offender and alcohol and drug abuse issues. OYA is converting some of its traditional foster care homes to therapeutic foster care to maximize supports and services for youth as well as better support foster parents. Transition and aftercare services are also critical for keeping youth out of institutional placements.

In the 2001-03 biennium, OYA will provide $18.1 million for county diversion and juvenile crime prevention funding for 36 counties. The funding covers local services for youth. County diversion funding has been provided since the 1980's. The juvenile crime prevention funding was phased in beginning in the 1999-2001 biennium as part of a comprehensive strategy for services to children and families enacted in SB 555 (1999). These funds are allocated in the context of local juvenile crime prevention plans.

In 2001-03, OYA will also allocate $3 million specifically for gang intervention efforts in Multnomah County. This funding has not been expanded to other areas of the state where gang activity has been recorded.

The Deschutes County delinquent youth demonstration project was expected to be in the final two years of its eight-year pilot period during the 2003-05 biennium. The pilot project used funding that would otherwise be used for OYA secure institutional beds to locally manage 16 beds for juvenile offenders. Any demonstrated savings could be used for local prevention and intervention services. The pilot project agreement has been terminated as a result of the SB 5548 budget reductions. The project was audited during the 2001-03 biennium by the Secretary of State, and a separate project evaluation was done by the University of Oregon's Institute on Violence and Destructive Behavior. The completed reports indicate that:

- The demonstration project had shorter stays but higher average daily costs than the OYA facilities, for a net lower average cost per case in the demonstration project.
- Total cost for the demonstration project exceeded the payments from the state. Deschutes County underwrote part of the project costs.
- The county reduced the number of juvenile corrections beds used overall.
- Shorter program time and more community service work for youth in the Deschutes County project increased public safety risks to some extent.
- The demonstration project was part of a comprehensive approach that included funding prevention services and leveraging other community resources to help prevent juvenile crime.

The Robert Wood Johnson Foundation is funding an additional evaluation which is to be done in April 2003.

Specific budget reductions during the 2001-03 interim have reduced funding for community programs by $2.3 million General Fund, about 3% of the 2001-03 legislatively adopted budget level. A further $3.2 million General Fund reduction from the 2002 fifth special session HB 5100 will reduce total General Fund resources for Community Programs by about 3.9% for the biennium. This has reduced statewide and specific grants to counties, further reduced probation and parole staff, eliminated funding for 160 to 170 residential, shelter and foster care beds, and reduced other contracted treatment services by about 20%. The reductions in local resources, combined with closure of four regional youth correctional facilities and resulting release of youth to their communities, will make it more difficult for communities to effectively manage at-risk youth and offenders locally.

Governor's Budget

Funding for the Community Programs budget is 13.3% General Fund and 12.0% total funds less than in the 2001-03 legislatively adopted budget. The budget reflects $14.7 million General Fund and $3.4 million Federal Funds reductions in parole/probation staffing, county grants and shelter, residential and foster care resources. An additional reduction of $1.1 million General Fund in parole/probation staff and community payments is made for a projected decline in federal revenues that are not replaced with General Fund. A total of $1.8 million General Fund in inflation increases for services and supplies expenditures and special payments is not funded. The programmatic impact of these budget actions is to:

- Eliminate all shelter program capacity (62.4 contracted beds), 30 contracted residential program beds, and 81 foster care beds; and eliminate individual treatment and support services to over 200 youth statewide. The 2001-03 legislatively adopted budget included $62 million for residential, shelter, foster care, and individualized services; the $52.9 million total funds in the Governor's budget for 2003-05 is 14.7% less.
- Reduce county diversion grants and juvenile crime prevention grants by about 27% from the 2001-03 legislatively adopted budget grant levels.

- Eliminate about 2/3 of the state funded beds, reduce prevention program funding, and eliminate a youth supervision aftercare worker position in the Deschutes County pilot project for 2003-05.
- Eliminate 21 parole and probation positions statewide. Total funding for parole and probation, however, is 17.1% higher in the Governor's budget than in the 2001-03 budget.

OYA – Facilities

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	113,522,271	118,657,059	116,555,936	100,669,475
Other Funds	6,505,851	8,994,514	10,108,948	7,971,329
Federal Funds	676,722	748,834	633,672	82,082
Total	**120,704,844**	**128,400,407**	**127,298,556**	**108,722,886**
Positions (FTE)	1,002.72	1,042.67	1,041.00	738.49

Program Description

OYA operates a variety of facilities that provide a continuum of close custody program levels. In the 2001-03 biennium, OYA operated facilities at Hillcrest in Salem, MacLaren in Woodburn, Grants Pass, Warrenton, Prineville, Albany, Burns, Tillamook, Florence, Corvallis, and La Grande. These included seven youth correctional facilities for more violent offenders; one youth accountability camp for non-violent offenders; and four transition programs to help youth move successfully back into the community.

The focus in the facilities is on reformation and rehabilitation in the context of public safety and restitution to victims and the community. The facilities provide treatment services, educational programs, and work experience for youth. Treatment, health and mental health services are provided by OYA employees and by contract with community professionals. Local school districts or education service districts provide education and vocational programs through contract with the Oregon Department of Education; educational costs are funded through the State School Fund rather than through the OYA budget.

Budget Environment

The Office of Economic Analysis (OEA) prepares a juvenile population forecast semi-annually, based on Oregon's youth population, juvenile arrest rates, and lengths of stay in OYA facilities. The forecast projects that the close custody population will be at 1,058 on July 1, 2003, growing to 1,125 at July 1, 2005. Much of the forecast growth is in discretionary beds, which are made up of new crimes and parole violations that do not fall under Measure 11 or Department of Corrections jurisdiction. The juvenile facility population is expected to level out at about 1,300-1,320 beginning in 2010, assuming no change in current law and practice.

The 2001-03 legislatively adopted budget did not fully fund the April 2001 population forecast, averaging about 30 beds below the forecast level. An additional $2.0 million in General Fund reductions during the interim closed 15 beds at MacLaren and deferred the opening of 25 beds at La Grande through at least June 2003. OEA's October 2002 population forecast suggests these beds will not be needed until midway through the 2003-05 biennium. However, there is some concern that the budget reductions made prior to October 2002 had already artificially depressed the forecast by changing local sentencing practices, effectively reducing commitments that would otherwise have been made to OYA facilities.

The Facilities budget for 2001-03 was further reduced by $4.4 million General Fund in HB 5100. The regional facilities in Burns, Warrenton, Albany, and Prineville have been closed to produce the required savings, eliminating 250 close custody beds. These regional facilities were generally higher-cost facilities because of their smaller, 50 to 75 bed capacity. A total of 337 youth were moved to achieve the 250-bed reduction; 168 youth were transferred to other facilities and 169 youth were released. The four regional facilities are expected to remain vacant until operating funds or alternative uses are approved. Funding for a regional coordinator and a support staff position was eliminated as part of the HB 5100 reductions; the four remaining regional coordinator positions were eliminated as part of the SB 5548 actions.

Governor's Budget

The Governor's budget is 15.2% General Fund and 15.3% total funds below the 2001-03 legislatively adopted budget for the Facilities program. It funds an average of 800 close custody beds, about 74% of the OEA October 2002 forecast level. The budget reflects the 2003-05 impact of reductions made during 2001-03, to delay opening one 25-bed unit through the end of the biennium and unfund 15 additional beds ($2.0 million General Fund, 29 positions, 13.69 FTE), and to eliminate 2 vacant positions (2.00 FTE) and cost of living adjustments for positions at salary range 38 and above. It also carries forward the 2003 closure of the four regional facilities, a total of $29.8 million General Fund, $3.0 million Other Funds, $20,258 Federal Funds, and 265 positions (252.00 FTE). An additional $700,743 General Fund is eliminated for services and supplies inflationary increases.

OYA – Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	10,674,386	16,908,331	16,600,725	19,739,776
Other Funds	6,263,909	1,183,890	1,183,890	1,226,811
Federal Funds	741,800	732,022	615,808	755,914
Total	**17,680,095**	**18,824,243**	**18,400,423**	**21,722,501**
Positions (FTE)	61.83	67.50	67.50	64.63

Program Description

The Administration section includes the director's office and business services for the agency, including accounting, employee services, budget and contracts, and information systems staff and expenditures. Agency-wide costs that are not allocated to other programs, such as insurance premiums and Attorney General costs, are also incorporated in this budget.

Budget Environment

The 2001-03 legislatively adopted budget increased General Fund to replace Other Funds from Certificates of Participation; approved six new permanent positions to replace four temporary staff positions and add two new positions; and funded additional contract services to support on-going operations for the statewide Juvenile Justice Information System (JJIS). During the interim, the budget was reduced by $284,896 General Fund as part of the interim special session actions, before distribution of salary funding. OYA managed the reduction by not filling vacant positions and by deferring scheduled computer replacements. HB 5100 reductions will eliminate a total of 6 full-time positions and $253,843 General Fund; this includes three information systems positions, two employee services positions, and one accounting position. The interim 2001-03 General Fund reductions, exclusive of salary under funding, are about 2% of the legislatively adopted budget level.

Governor's Budget

The Governor's budget for OYA Administration is 16.7 % General Fund and 15.4% total funds higher than the 2001-03 legislatively adopted budget. The increase is primarily a result of continuing the new JJIS positions and salary adjustments phased-in during the 2001-03 biennium, and higher Attorney General and State Government Service Charge rates. The budget continues the 2001-03 interim position reductions, and eliminates $194,269 General Fund for services and supplies inflation.

OYA – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	12,119,563	13,029,875	11,500,162	10,585,600
Other Funds	0	0	814,886	0
Total	**12,119,563**	**13,029,875**	**12,315,048**	**10,585,600**
Positions (FTE)	0.00	0.00	0.00	0.00

Program Description

Debt service on certificates of participation (COPs) is included in this budget. The bulk of the debt service payment goes to repay COPs issued for regional facilities, fencing, and property transactions. OYA also pays for Juvenile Justice Information System COPs issued in 1998 and for remodeling at Hillcrest related to suicide prevention issues. Existing debt obligations will be fully paid in April 2012.

Budget Environment

OYA's debt service payments are declining as its shorter-term financing is repaid. At the end of the 2003-05 biennium, only obligations for regional facility construction will remain. Debt service payments were reduced during the 2001-03 interim with new COPs issued to refinance existing obligations for the regional facilities at a lower interest rate. OYA used $0.8 million in accumulated Other Funds interest earnings to pay debt service in 2001-03, for one-time General Fund savings.

Governor's Budget

The Governor's budget funds existing debt service obligations.

OYA – Capital Improvement/Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,769,680	206,249	317,360	206,249
Other Funds	100,000	365,300	1,365,300	378,086
Total	**1,869,680**	**571,549**	**1,682,660**	**584,335**
Positions (FTE)	0.00	0.00	0.00	0.00

Program Description

Capital Improvement covers maintenance and repair projects at the juvenile facilities. Capital Construction includes major renovation projects, or land acquisition and construction costs such as for the regional facilities.

Budget Environment

The 2001-03 legislatively adopted budget included funding for only capital improvement projects. During the interim, OYA received Capital Construction authority for remodeling space at Hillcrest. The project is funded with redirected General Fund appropriations and Other Funds from a federal Violent Offender Incarceration/Truth-in-Sentencing Incentive grant from the Oregon State Police. When completed in 2004, this will add 50 beds to OYA's current 1,131 close custody bed capacity.

The agency's 6-year capital management plan initially identified a total of $5.8 million in projects for the 2003-05 biennium: $1.1 million for capital repair and improvement projects for existing facilities, and $4.7 million to replace the Corvallis House Young Women's Transition Program and Whiteaker Hall at MacLaren. The agency's legislatively adopted budget has typically not fully funded its capital management plan.

Governor's Budget

Capital Improvements funding is comparable to 2001-03 levels, with no inflation for General Fund expenditures but 3.5% inflation for Other Funds expenditures. No Other Funds revenues are on hand at this time, but the expenditure limitation would allow the agency to expend potential receipts during the biennium. No new Capital Construction projects are included in the Governor's budget.

ECONOMIC AND COMMUNITY DEVELOPMENT

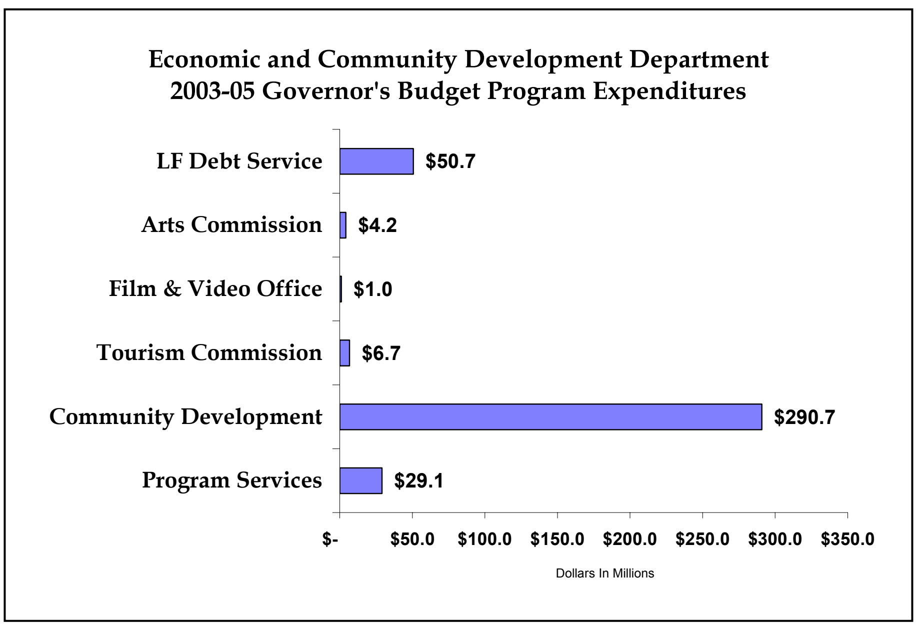
Economic and Community Development Department (OECDD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,648,325	2,742,315	2,476,670	2,128,104
Lottery Funds	62,052,195	85,912,472	75,266,148	99,957,687
Lottery Funds - Carryover	7,150,000	10,483,336	5,925,800	2,835,069
Other Funds	11,910,323	42,034,033	44,702,055	36,518,942
Federal Funds	32,652,054	52,564,689	52,612,386	43,888,961
Nonlimited	134,506,488	279,397,546	279,397,546	197,031,413
Total	**251,919,385**	**473,134,391**	**460,380,605**	**382,360,176**
FTE	144.76	149.00	147.50	131.33

The Oregon Economic and Community Development Department (OECDD) provides economic and community development and cultural enhancement throughout the state, and administers programs that aid businesses and communities. The Economic and Community Development Department receives General Fund, Lottery Funds, Federal Funds and Other Funds primarily from the Oregon Bond Bank and other bonding programs, and uses the funds to provide grants, loans and direct and contract services. Program focuses include regional and rural development, business and industry development, and ports.

The 1997 Legislative Assembly directed that Oregon's economic development system be redesigned to meet the changing economy in Oregon, to provide flexibility in funding statewide and regional needs, and to focus on funding economic and community development services for rural and distressed communities. The Department has six budgetary divisions:

- ***Program Services*** provides overall policy direction, service delivery and program support, including ports and international trade staff support.
- The ***Community Development Fund*** includes state and federal funds that support the Department's grants, loans and contracted services for communities, businesses, ports and regional economic development boards.
- ***Lottery Funds Debt Service*** is used exclusively for debt service on lottery bonds.
- The ***Tourism Commission*** promotes Oregon and helps create jobs in tourism-related industries.
- The ***Film and Video Office*** develops the film and video industry in Oregon.
- The ***Oregon Arts Commission*** fosters the arts and cultural development in Oregon.



The ***Oregon Progress Board***, which evaluates Oregon's progress in meeting Benchmark goals, previously existed in OECDD. The 2001 Legislature transferred the Board to the Department of Administrative Services as part of a change in statutory direction that establishes a link between agency performance measures and outcomes developed for the budget process and the statewide Benchmark goals.

Budget Environment

The agency's 2001-03 budget was reduced by $265,645 net General Fund, $10,486,269 in new Lottery Funds and $4,849,437 in Lottery Funds carryover based on special session actions during the interim. The agency received an additional $20,534 General Fund and $341,724 Other and Federal Funds for partial funding of employee salary and benefit increases. This was $7,143 General Fund less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, consolidate office space and reduce rent, reduce programs and services, and reduce the Lottery Funds available for distribution to regions by $6.9 million. One-time funding of $1.8 million from Other Funds interest earnings was allocated to partially offset Lottery Fund reductions to regional investment boards. At its November 2002 meeting, the Emergency Board authorized the temporary funding of 8 positions and $720,000 Lottery Funds cut in the 2002 fifth special session with $480,000 in Other Funds from revolving loan fund interest earnings. This staffing does not carry forward into 2003-05.

The workload of the agency is driven by the economic and community development needs of Oregon's communities. This includes assisting communities to meet needs for clean water and wastewater disposal and other public infrastructure and community facilities, development of telecommunications services and infrastructure particularly in the areas of rural Oregon that lack adequate service, and support for community-identified economic and community development programs. The 1999 Legislature approved $45 million in lottery bonds for infrastructure for this effort and the 2001 Legislature approved lottery-backed bonding authority of $181.1 million for various community infrastructure development projects, Columbia River channel deepening and the Joseph Branch Railroad.

The agency provides administrative support to the Tourism Commission, the Arts Commission and, until the July 1, 2001 transfer, the Oregon Progress Board. The agency also distributes funds to the semi-privatized Oregon Film and Video Office.

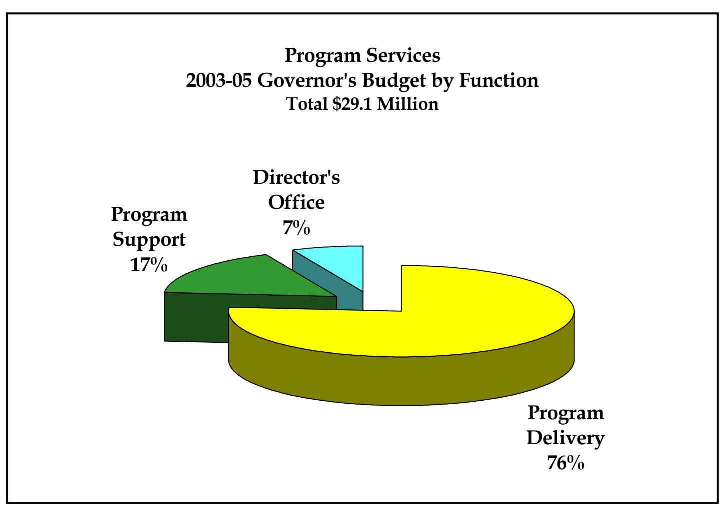
The 1999 Legislative Assembly directed the Department to establish a performance measurement and reporting process. The Department established a work group that developed these and reported to the Joint Trade and Economic Development Committee and the Joint Legislative Audit Committee. The 2001 Legislature requested a Secretary of State audit of the Department's performance measures. Following that audit, the Legislature adopted SB 973, which directed the Legislative Fiscal Officer to contract for a study of economic development program outcomes. The outcome of this study will be reported to the 2003 Legislative Assembly.

OECDD – Program Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	16,137,972	16,772,892	15,435,960	16,227,012
Other Funds	7,317,682	9,475,933	10,285,867	10,020,541
Federal Funds	1,327,223	2,466,915	2,513,496	2,850,215
Total	**24,782,877**	**28,715,740**	**28,235,323**	**29,097,768**
FTE	125.76	134.00	132.50	116.25

Program Description

The Director of the Economic and Community Development Department is appointed by the Governor and confirmed by the Senate. Program Services includes the Office of the Director; Program Support that includes fiscal services, employee services, and information services; and Program Delivery that includes Business and Industry Services, Regional Teams, International Services, and Finance Services. Program Support provides administrative support to the agency and its allied boards and commissions in the areas of fiscal and personnel management, information processing, research and communications, staff support, and policy development.



The Department has restructured internal operations and established five cross-agency regional teams in the Program Delivery section. These teams coordinate the efforts of the Department as a member of Community Solutions Field Teams. Services include planning and financial assistance for Oregon's communities and 23 ports as well as distribution of federal block grants, other Federal Funds, and lottery-backed loans and grants for infrastructure (e.g., water, sewer, telecommunications, and roads), public works, and business and industry development activities.

The Program Delivery section also includes: *International Services*, which provides staff and services in foreign markets including offices in Japan and Taiwan, and contracted services in other countries, including Korea, the United Kingdom, China, and Mexico; and *Business and Industry Services*, which provides assistance to Oregon business and industry sectors.

Revenue Sources and Relationships

Estimated revenues for 2003-05 include: $16.2 million in Lottery Funds; $2.6 million in Federal Funds for administration of federal programs and the Community Development Block Grant program; and $10 million in Other Funds from interest earnings and loan repayments, and from the Safe Drinking Water Revolving Loan Fund that is administered by the Department.

Budget Environment

The Program Services division was reduced by $480,417 and 15 positions based on special session actions during the interim. These reductions affect the ability of OECDD to provide economic and community development services. At its November 2002 meeting, the Emergency Board authorized the temporary funding of 8 positions cut in the fifth special Session with $480,000 in revolving loan fund interest earnings. The 2003 legislature will need to determine if this fund shift and staffing restoration should be permanent.

Community and regional needs and the needs of businesses and industry drive the workload. External forces, including changes in Oregon's economy, have a direct impact on the workload. Workload is also affected by changes in organization and staffing. The revisions to the budget structure and the change in direction and responsibility of the Economic and Community Development Commission have a major impact on staff workload, as does the additional workload generated by the Safe Drinking Water Revolving Loan program and the expanded infrastructure program. The 2001 Legislature added $132 million for infrastructure investments from lottery backed bonds, and also added 4.26 FTE above the 1999-2001 estimated staffing level to handle this workload and the workload generated by the additional $45 million in Lottery bonds for infrastructure that was approved by the 1999 Legislature. The 2001 Legislature added four limited duration FTE, funded with telecommunications funds, to handle the telecommunications infrastructure program authorized in 1999 by SB 622. The 2001 Legislature also approved the funding of new positions out of revolving loan fund interest earnings.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level, and funds a policy option package for Oregon Rural Development Council staffing, with $224,907 Federal Funds and 1.0 FTE. The Council has been in effect for six years, but staff support has been temporary. This package makes the staffing permanent. The Council includes federal, state, local, tribal, and private sector partners that advocate for rural development issues. It is a national program that was started in 1991 and is funded entirely with federal USDA Rural Development funds.

OECDD – Community Development Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	320,000	320,000	0
Lottery Funds	33,321,079	42,006,720	35,004,727	25,636,578
Lottery Funds - Carryover	7,150,000	10,483,336	5,633,899	2,835,069
Other Funds	4,154,378	32,252,070	34,102,070	25,926,825
Federal Funds	30,152,129	48,166,006	48,166,006	39,244,883
Nonlimited	134,506,488	279,397,546	279,397,546	197,031,413
Total	**209,284,074**	**412,625,678**	**402,624,248**	**290,674,768**
FTE	0.00	0.00	0.00	0.00

Program Description

The Community Development Program contains the funding that is allocated by the Economic and Community Development Commission for business and industry opportunities, regional development, community assistance, small business assistance, and ports programs. The program also includes federal resources used to finance local programs and projects. Each federal resource retains its identity for purposes of eligibility and federal reporting, but is considered as part of the Community Development Fund for statewide resource prioritization and allocation. It also includes Other Funds resources used to finance local programs and projects, either through a loan or a grant, and includes Other Funds resources for business finance. Each Other Funds resource retains its identity for purposes of eligibility and reporting, but is considered as part of the Community Development Fund for statewide resource prioritization and allocation.

Revenue Sources and Relationships

Community Development Program revenues include fees and service charges, interest earnings, loan repayments, federal grant funds, and $136 million in nonlimited Other Funds from the sale of program specific revenue bonds and lottery-backed bonds. Programs include the Special Public Works Fund, Water/Wastewater Funds, and Port Revolving Fund for the investment of proceeds from lottery-backed bond sales. Other Funds revenues include $22.6 million for the Safe Drinking Water Revolving Loan Fund and a lottery fund bond program to provide the state match for the Safe Drinking Water program. Other Funds revenue also includes $27.1 million in interest income and $24.5 million in loan repayments from community and port infrastructure projects and business finance loans. Lottery Funds carryover represents unspent lottery allocations from prior biennia, generally for projects which are begun but not yet completed in the current biennium, which are carried forward for expenditure.

Budget Environment

The program's 2001-03 budget was reduced by $7,001,993 in new Lottery Funds and $4,849,437 in Lottery Funds carryover based on special session actions during the interim. Over $6.9 million in direct Lottery Funds passed through to cities and regions through Regional and Rural Investments was cut. However, a portion of this cut ($1.8 million) was offset through the allocation of Other Funds from interest earnings. This reduction affects the economic development activities of Oregon's cities and regions.

The bonding authority, managed through the Oregon Bond Bank, includes the Special Public Works Fund, the Water/Wastewater Fund, and the Industrial Development Revenue Bond program. The 2001 Legislature increased authority levels to $200 million for the Oregon Bond Bank and $250 million for Industrial Development Revenue Bonds. The Legislative Assembly has provided more flexibility in the use of funds for financing activities across program lines, adding to the loans, grants and bonds issuance that are processed. In addition, a new and ongoing program has been added with the Safe Drinking Water Revolving Loan Fund and the bonding authority that has been provided for the 20% match.

The 1999 Legislature approved a total lottery funded bond limit of $45 million. The 2001 Legislature approved $181.1 million in bonding authority. This included the transfer of $6.7 million in funding for Columbia River channel deepening from the Lottery Funds allocation specified in SB 710 (1997) to lottery-backed bonds. The Legislature also approved a $600,000 reduction in Lottery Funds for community assistance programs and a $670,000 reduction in unspecified projects funded out of the Oregon Unified International Trade Fund in SB 710. A portion ($90 million) of the $181.1 million in bonds is now scheduled for sale in early May 2003. The 2003 Legislature could choose not to authorize that sale in order to avoid additional debt service costs of approximately $18 million a biennium.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level. The Governor intends to restructure the use of these funds, and will work with the Economic and Community Development Commission to target funds towards job creation, including business retention and recruitment efforts. The Governor has not specified how these funds will be targeted. The Governor also intends to refocus the use of the remaining $90 million in bonding authority towards job creation and business and industry services, but has not specified how these bonds will be used. The Legislature will need to determine if the proposed uses correspond with the purposes for which these bonds were authorized.

OECDD – Oregon Tourism Commission

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	6,244,165	6,406,994	6,115,994	6,475,969
Other Funds	375	171,297	176,445	190,355
Federal Funds	56,529	256,250	256,250	81,250
Total	**6,301,069**	**6,834,541**	**6,548,689**	**6,747,574**
FTE	10.00	10.00	10.00	10.00

Program Description

The Tourism Commission is a marketing agency for Oregon's statewide visitor industry. Tourism produces advertising campaigns, and publishes literature on campgrounds, hotels/motels and restaurants that are available around the state. The 1995 Legislative Assembly replaced the statutory advisory committee, the Oregon Tourism Council, with the Oregon Tourism Commission. The Commission, which is appointed by the Governor, has policy authority over the tourism function. Administrative authority over the staff support and financial administration of the Tourism Commission remains with the Economic and Community Development Department. The Commission works to increase public and private partnerships to promote tourism.

Revenue Sources and Relationships

The primary source of revenue for Tourism is Lottery Funds. It also receives revenue from publication sales and anticipates increased revenue from its public/private partnership initiative. The program receives $80,000 in Federal Funds from a U. S. Forest Service matching grant to promote tourism.

Budget Environment

The Lottery Funds budget for the Tourism Commission was reduced by $291,000 based on special session actions during the interim. These reductions affect the funding available for advertising campaigns and other tourism services. Tourism works in partnership with the private sector, state and federal agencies (Parks, U.S. Forest Service, and ODOT), Department programs such as trade industries, local and regional visitors associations, and domestic and international travel programs to promote Oregon tourism. Tourism also formed partnerships with other states and Canadian provinces in the Pacific Northwest. Tourism estimates that close to $114 in visitor spending in Oregon is generated for each state dollar invested in advertising expenditures.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level.

OECDD – Film and Video Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	948,788	972,508	923,119	955,428
FTE	0.00	0.00	0.00	0.00

Program Description

The Film and Video Office is a marketing agency for Oregon's statewide promotion of film, television and information services. The 1995 Legislative Assembly authorized the semi-privatization of the Film and Video Office, which provides the program with greater flexibility in marketing activities. The Economic and Community Development Department is responsible for the pass-through of Lottery Funds to the Office. The Office recruits film productions through its marketing efforts, and provides assistance to productions to identify film locations. Services include maintaining a photo library of potential movie and television locations statewide and assisting in film permitting. The Film and Video Office estimates the industry generated $835 million economic output and 11,023 jobs in 2000.

Revenue Sources and Relationships

The Office is supported by Lottery Funds.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level.

OECDD – Arts Commission

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,886,451	2,422,315	2,156,670	2,128,104
Other Funds	84,910	134,733	137,673	381,221
Federal Funds	1,116,173	1,675,518	1,676,634	1,712,613
Total	**4,087,534**	**4,232,566**	**3,970,977**	**4,221,938**
FTE	5.00	5.00	5.00	5.08

Program Description

The Arts Commission is responsible for making the arts and culture available to all Oregonians by working with other agencies on a variety of initiatives in education, arts and tourism. The Commission is responsible for a number of activities including: evaluating the impact of arts on Oregon's economy; distributing National Endowment for the Arts (NEA) funding for programs in Oregon; working with the leadership of local arts organizations; conducting assessment and maintenance to protect existing public art and approving new public art; and supporting Oregon's Art in Education program. The Commission coordinates regional efforts and arts education programs through a network of regional arts councils and collaborates to advance arts education for all students. The Commission became a part of OECDD in 1993.

Revenue Sources and Relationships

The Arts Commission receives federal NEA funding, General Fund, and Other Funds from the 1% for Arts program and from donations. The 1% for Arts program is a state law which requires that 1% of appropriations to construct or alter certain state buildings must be used for the acquisition of art works. About 65% of the Commission's funds are used for special payments, which are grants to individuals and non-profit programs that support the goals of the Arts Commission.

Budget Environment

The Arts Commission received an additional $20,534 General Fund for partial funding of employee salary and benefit increases. This was $7,143 General Fund less than needed to fully fund those increases. To manage the reductions, the program took one-time actions to reduce General Fund grants and services. In addition to its existing responsibilities, the Arts Commission is actively cooperating with the Tourism Commission on cultural tourism promotions and activities that draw visitors, and with the Oregon Cultural Trust, housed in the Secretary of State's Office, to build a new public-private fund to support arts, humanities, and heritage sectors.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level, and adds $207,000 Other Funds expenditure limitation and .08 FTE for a policy option package to biennialized implementation of a Ford Foundation grant. The 2001-03 Other Funds expenditure limitation for this grant was approved by the Emergency Board at its January 2003 meeting. The grant will fund artist residencies for rural schools, and provides $310,000 Other Funds for the program over a three-year period.

The budget also includes a $115 net fund shift in the Arts Across Oregon program to consolidate all Federal Funds for grants to the arts communities.

OECDD – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	5,400,191	19,753,358	17,786,348	50,662,700
FTE	0.00	0.00	0.00	0.00

Program Description

This is a budgetary division that receives Lottery Funds and pays the debt service on lottery-backed bonds.

Revenue Sources and Relationships

The division is supported with Lottery Funds allocations. The budget for this program will increase by $32,133,451 in the 2003-05 biennium to cover the increased debt service cost for the $181 million in lottery-backed bonding authority authorized by the 2001 Legislature. A portion of that roll-up cost (approximately $18 million) could be avoided if the 2003 Legislature chose to not to authorize a $90 million bond sale now scheduled for May 2003.

Governor's Budget

The Governor's budget funds the program at the biennialized 2001-03 legislatively approved budget level.

OECDD – Oregon Progress Board

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	761,874	0	0	0
Other Funds	352,978	0	0	0
Total	**1,114,852**	**0**	**0**	**0**
FTE	4.00	0.00	0.00	0.00

Program Description

The Oregon Progress Board consists of nine members appointed by the Governor. Functions include evaluating Oregon's progress in meeting the goals established in the "Oregon Benchmarks"; updating the Benchmark measures; defining new measures; and addressing strategies for meeting the Benchmark goals. The 1997 Legislative Assembly re-authorized the Progress Board as a statutory program. The 2001 Legislature transferred the Progress Board to the Department of Administrative Services.

Employment Department (OED) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,940,248	4,133,755	1,970,468	3,627,976
Other Funds	66,214,872	96,461,654	102,006,689	115,847,374
Federal Funds	137,350,242	250,561,603	268,631,222	260,057,254
Nonlimited	995,332,165	1,339,076,011	1,623,881,363	1,467,463,000
Total	**1,202,837,527**	**1,690,233,023**	**1,996,489,742**	**1,846,995,604**
FTE	1412.98	1448.65	1451.57	1400.12

The Employment Department offers services in four program areas:
- Support the Unemployed provides wage replacement income to unemployed workers through the Unemployment Insurance (UI) system.
- Promote Employment/Develop the Workforce offers job placement and career development resources to job seekers and employers.
- Child Care promotes and regulates child care related functions.
- Hearing Officer Panel conducts contested cases for approximately 70 state agencies.

Revenue Sources and Relationships

The Department's Federal Funds revenue sources include an allocation from the U.S. Department of Labor, estimated at $102 million for 2003-05, for administration of the Unemployment Insurance Program. This allocation is paid out of employer payroll taxes collected by the Internal Revenue Service under authority of Federal Unemployment Tax Act (FUTA). The Wagner-Peyser Act provides Federal Funds specifically for employment services; the Department expects to receive $20.5 million in 2003-05. The U.S. Department of Health and Human Services allocates Child Care Development Fund (CCDF) dollars to the Employment Department. These funds, anticipated at $117.4 million for 2003-05, are used for programs within the Child Care Division or allocated to child care related programs at other agencies.

The Oregon UI Trust Fund, with a balance of more than $1.5 billion, is an Other Funds revenue source created through dedicated employer payroll taxes collected by the Employment Department. These funds are designated for unemployment insurance compensation payments to qualified individuals. Federal Reed Act funds, in the amount of $98 million, were distributed to OED as Other Funds for expenditures relating to UI Program administration. The Supplemental Employment Department Administrative Fund (SEDAF), with estimated 2003-05 revenues of $41.7 million, supports Other Funds administrative expenses throughout the Department. Penalty and interest on delinquent payment of employer taxes are deposited into the Special Administrative Fund. These funds are designated for administrative expenses or other needs as determined by the Director of the Department. The Fraud Control Fund is supported by interest earnings on delinquent repayments of UI benefit overpayments and is earmarked for costs associated with the prevention, discovery, and collection of those overpayments. The Employment Department also receives Other Funds from agencies for providing job placement services and conducting contested case hearings.

State General Fund dollars support child care regulation and some Child Care Resource and Referral activities.

Budget Environment

Economic conditions and trends directly affect the Employment Department's policy decisions and workload. National issues including economic growth, unemployment, inflation, consumer confidence, law changes, and the status of the federal budget all influence Oregon's economy. The Department must meet immediate needs of citizens while striving to accurately forecast changes in job growth, industry profiles, regional issues, age demographics, and workforce skills.

OED – Support the Unemployed

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,330,191	10,338,030	11,164,156	23,730,111
Federal Funds	85,675,652	92,531,034	108,523,108	102,051,197
Nonlimited	995,332,165	1,339,076,011	1,623,881,363	1,467,463,000
Total	**1,082,338,008**	**1,441,945,075**	**1,743,568,627**	**1,593,244,308**
FTE	647.91	645.76	645.76	626.51

Program Description

The Support the Unemployed program's primary function is to provide wage replacement income through the Unemployment Insurance (UI) system to eligible unemployed workers while they are searching for suitable new employment. The program offers employment assessment and reemployment intervention assistance, along with identifying available programs for dislocated workers. Program staff makes eligibility determinations, enforce UI laws, collect employer payroll taxes, and manage the unemployment trust fund. The Hearing Officer Panel provides workers and employers the opportunity for a fair and prompt hearing of disputed administrative decisions. The Employment Appeals Board reviews decisions of the Hearing Officer Panel on benefit cases. The Board, made up of three Governor-appointed members, is a separate and federally funded entity located within the Department for administrative purposes.

Revenue Sources and Relationships

Federal Funds designated for operation of the UI system fund around 90% of the Support the Unemployed program budget. Other Funds revenue from the Supplemental Employment Department Administrative Fund (SEDAF) supports the remainder of the program. Payments of unemployment benefits to claimants are nonlimited and are paid from employer unemployment taxes collected by the Employment Department. The 71st Legislatively Assembly passed two bills impacting UI Trust Fund revenues. SB 397 lowered rates for three of the eight unemployment insurance tax schedules, reducing revenues by $10.4 million in 2001-03. HB 3441 diverted $25 million of UI taxes over the next four years into the JOBS Plus Unemployment Wage Fund to support that program. Since the fund currently has an excessive balance, these changes should reduce that balance without harming the solvency of the trust fund.

Budget Environment

Federal funding allocated for the administration of the UI system has not been sufficient to fund the cost of administration for many years. As a result, the Support the Unemployed program is increasing its reliance on Other Funds revenue for program support. Maintaining low staffing levels, introducing efficiency measures, and implementing new technology are ways the program strives to keep costs down. One successful use of technology is the Interactive Voice Response system, which enables claimants to file for UI benefits by phone and allows for easier claim processing, faster payment, and automated tax reporting. Much of the program's workload is dependent on economic conditions and the filing of initial unemployment claims. Estimated benefits are based on state economic growth, the number of workers covered by the unemployment insurance program, and state wages.

The 2002 second special session adopted HB 4021. The bill provided for:

- a 13-week extension of unemployment benefits called "emergency benefits";
- an additional $20 per week in Unemployment Insurance; and
- an Unemployment Insurance tax reduction for the third quarter of calendar year 2002 in the amount of 0.24%.

The bill had a provision that prevented the "emergency benefits" payments from being made if the federal government passed a bill that would pay 100% of a claimant's benefits. The Temporary Extended Unemployment Compensation Act became law on March 9, 2002; therefore, this provision of the state law was never enacted.

Governor's Budget

The recommended budget for the Support the Unemployed program is 8.6% below the 2001-03 legislatively approved budget. The budget:

- phases out one-time services and supplies costs related to HB 3141(1999) implementation and Hearing Officer Panel charges;

- shifts funds for 52.00 FTE and associated services and supplies to Other Funds from Federal Funds to offset reductions in Unemployment Insurance revenue;
- increases limitation ($4 million Other Funds) to use Reed Act funds to expand the implementation of the Telephone Initial Claims Call Centers; and
- establishes three new positions to increase fraud control efforts and Unemployment Insurance recoveries.

OED – Promote Employment/Develop the Workforce

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	49,403,746	63,831,949	66,060,703	69,446,789
Federal Funds	36,264,941	34,364,487	35,753,533	40,587,360
Total	**85,668,687**	**98,196,436**	**101,814,236**	**110,034,149**
FTE	575.98	601.80	601.80	579.31

Program Description

The Promote Employment/Develop the Workforce program assists job seekers in finding employment by matching their skills with employers' requirements and assists people in making career changes by providing labor market information and career development resources. The Department provides specialized placement services for targeted groups such as welfare clients, migrant farm workers, veterans, dislocated workers, ex-offenders, homeless individuals, youth, and disadvantaged workers.

The 71st Legislative Assembly looked to the Department's research and analysis resources for assistance with various projects during the 2001-03 biennium. OED will support task forces on health care personnel, paid family leave, and unemployment insurance.

Revenue Sources and Relationships

The Promote Employment/Develop the Workforce programs are funded primarily through federal Wagner-Peyser funds, SEDAF, penalty and interest revenues, and contracts for services. The Shared Information System, a database that provides cross-agency data on vocational training participants, is jointly funded by the Employment Department, the Department of Human Services, the Department of Education, and the Department of Community Colleges and Workforce Development.

Budget Environment

The Department continues to work with other agencies and develop technology to improve service delivery and reach more customers. The federal Workforce Investment Act, passed in 1998, established the One-Stop service delivery model as the "access" point for employment services. The Department supports the model by focusing on one-stop activities, such as sharing labor market information and training front-line staff, in conjunction with workforce partners. Touch-screen technology allows the Department to provide employment information to the public via kiosks in 154 locations, including retail stores, libraries and government offices. The Department's Internet web site offers interactive job services to customers 24 hours a day, seven days a week. Employers place job openings with the Department directly via the Internet while job seekers access job openings and information about Department services. A statewide skills-based system, allowing job seekers to evaluate their current skills against the skills required for a specific position, became operational on the web site in early 2001.

Governor's Budget

The Governor's budget is 8.1% above the 2001-03 legislatively approved budget and includes the following:
- a reduction of $1.4 million Other Funds limitation and elimination of 9.0 FTE due to unavailability of funding for Claimant Reemployment positions;
- a fund shift of $.4 million Other Funds to backfill GF in the Child Care Division; and
- the establishment of 25 limited duration positions to be used to respond to grants and contracts that would be filled only when sufficient workload and funding became available.

OED – Child Care

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,940,248	4,133,755	1,970,468	3,627,976
Other Funds	839,145	675,870	2,450,348	708,720
Federal Funds	15,409,649	123,666,082	124,354,581	117,418,697
Total	**20,189,042**	**128,475,707**	**128,775,397**	**121,755,393**
FTE	53.88	65.88	65.88	68.88

Program Description

The 1993 Legislature created the Child Care Division through the consolidation of child care functions formerly located in three separate state agencies. The Division ensures that families have access to child care information and services, administers federal child care funds for low-income families, establishes basic standards for child care services, licenses child care centers and family group homes, and enforces mandatory registration of family child care providers.

Revenue Sources and Relationships

The Division oversees Oregon's allocation of the federal Child Care and Development Fund (CCDF) revenue, which is anticipated at $117.4 million for 2003-05, and receives Other Funds revenue from day care center and day care provider licensing fees. CCDF administration is provided through an interagency agreement with the Adult and Family Services Division of the Department of Human Services. The funds are used to provide direct assistance to low-income working and student parents, migrant workers, and parents receiving substance abuse treatment. CCDF funds are also used to develop dependent care information, referral programs, and school-age child care programs. Licensing fee revenues, supplemented with the General Fund, support the child care facility licensing and regulation program.

Budget Environment

Increases in the number of single parent families and dual income households are generating growing childcare needs in Oregon. As more parents work or attend school or training programs, the demands for an accessible, affordable, high quality child care system increase. The Division is attempting to support these demands through programs that enhance child safety and health, promote child care worker training, offer information on child care providers, and ensure compliance with state and federal child care laws.

The Child Care Division's budget was reduced by $2,251,992 General Fund during special sessions. This amount equals 54.5% of the total General Fund allocated to the Division in the 2001-03 budget. The Department was directed by the Legislature to replace $1,750,000 of this reduction with funds from the Employment Department Special Administration Fund (Penalty and Interest).

Governor's Budget

The Governor's recommended budget for the Child Care program is 5.5% less than the legislatively approved budget. The budget incorporates a 10% General Fund reduction option proposed by the agency because of General Fund constraints. This reduction will cause information and referral services to parents and child care providers to be reduced. No new programs or enhancements to existing programs are included.

OED – Hearing Officer Panel

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	14,641,790	21,615,805	22,331,482	21,961,754
FTE	135.21	135.21	138.13	125.42

Program Description

In response to concerns about fair and impartial contested case hearings, the 1999 Legislative Assembly passed HB 2525, which established a pilot hearing panel within the Employment Department. The bill transferred hearing officers and related positions from the Department of Human Services, Department of Consumer and Business Services, Water Resources Department, Department of Transportation, Oregon Liquor Control

Commission, and Construction Contractor's Board to the Employment Department. These positions, along with positions from the Employment Department's own hearings unit, created a new program area within the Department with program employees remaining physically housed at their originating agency. The Hearing Officer Panel, also referred to as the Central Hearings Panel, is a 4-year pilot project that began on January 1, 2000 and is scheduled to sunset at the end of 2005. The Hearing Officer Panel conducts contested case proceedings and may perform other services relating to dispute resolution. All state agencies, except those exempted in HB 2525, must use hearing officers from the panel.

House Bill 2525 also created the Hearing Officer Panel Oversight Committee. The committee is charged with studying the implementation and operation of the Panel and with making recommendations about those activities.

Revenue Sources and Relationships

Other Funds revenue of $22.4 million for the 2003-05 biennium from agencies purchasing hearing services supports the Hearing Officer Panel. Charges are based on actual and reasonable costs of conducting hearings.

Budget Environment

The Hearing Officer Panel is working to streamline and simplify services to customer agencies. One of the Panel's goals is to provide accurate, informative, and timely invoices to agencies, thus allowing the agencies to adequately budget for hearing services. Another goal is to develop the ability to shift resources, hearing officers and operational staff among program areas based on caseload demands.

Since October 2001 case loads in unemployment insurance and social service claims have grown substantially, but have now leveled off. Caseloads and the implications of current state budget difficulties for the Panel are uncertain. Customer agencies have indicated that they will not have the revenue and/or workload to support the level of services that are being provided in 2001-03.

Governor's Budget

The recommended budget for the Hearing Officer Panel is 1.7% less than the legislatively approved budget for 2001-03. The reduction is due primarily to the reduced level of services estimated by customer agencies. The budget estimates a revenue loss of $1.6 million. No new programs or enhancements to existing programs are included.

Oregon State Fair and Exposition Center (Fair) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,298,934	1,492,452	1,345,050	1,363,562
Lottery Funds	256,337	3,170,828	2,611,346	4,444,659
Other Funds	21,895,885	20,390,943	20,515,580	12,107,921
Nonlimited	1,397,985	1,311,128	1,311,128	1,219,565
Total	**24,849,141**	**26,365,351**	**25,783,104**	**19,135,707**
FTE	32.19	37.67	32.05	37.18

The Oregon State Fair and Exposition Center conducts an annual state fair of up to 17 days and provides services for ongoing exposition activities including recreational vehicle and organization meetings, concerts, and consumer products and services shows. The Fair responds to the needs and interests of visitors, participants, exhibitors, concessionaires, vendors, and facility users.

Budget Environment

The Fair is not generating sufficient revenue to fund operations and maintain its facilities. A 1998 performance audit by the Joint Legislative Audit Committee found that: the Fair was failing financially and risked default on its bonded indebtedness; attendance at the Fair had declined; facilities had not been adequately maintained and improved; and there was no consensus on the future of the Fair. The 1999 Legislature responded to these issues by directing that an interim legislative committee develop a long-range strategic plan for the agency that addressed functions, funding, capital construction and maintenance needs, and ongoing operations. In response to the findings of the interim committee, the 1999 Legislature approved $10.6 million in bonding authority for renovations.

In 1999-01, legislative leadership appointed a Joint Interim Task Force on the Oregon State Fair to review facilities, revenue, attendance, and operations. The Task Force adopted the Modernization Master Plan and incorporated Master Plan recommendations into the Strategic Plan for the Oregon State Fair and Exposition Center. This Plan was also adopted by the Emergency Board. The Task Force identified the need for an additional $37.9 million in bonding authority to complete renovation and construction of fairgrounds facilities. Based on recommendations from the Task Force, the 2001 Legislature expanded the State Fair Commission to seven members, including two members from county fairs and created a Community Partnership Task Force to continue the oversight begun in the 1999-01 biennium. The 2001 Legislature approved an additional $10 million in bond proceeds for facilities renovation as reflected in the Fair's Capital Construction budget, with a corresponding increase in Lottery Funds for debt service.

Fair – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,298,934	1,492,452	1,345,050	1,363,562
Other Funds	10,258,956	10,390,943	10,515,580	12,107,921
Total	**11,557,890**	**11,883,395**	**11,860,630**	**13,471,483**
FTE	32.19	37.67	32.05	37.18

Program Description

The agency is responsible for activities related to the annual Oregon State Fair and for ongoing Exposition Center functions. This includes all permanent and temporary staff, supplies, equipment, maintenance, and related support functions.

Revenue Sources and Relationships

In the 2001-03 biennium, the Fair is expected to receive $11,449,698 in Other Funds revenue from grounds admission, commercial exhibit fees, ride and show admissions, parking, space rental fees, and food concessions, which is not sufficient to fully cover increases in fixed operating costs or to fund essential maintenance. This estimate is an increase of $688,500 from the $10.8 million projected at the beginning of the 2001-03 biennium. The Fair has bonding authority for capital construction and renovation projects. To date, the Fair has met all of its debt service payment obligations. However, in 1997, it defaulted on the provision of its bond rate covenant that required the agency to maintain a fund balance of at least $632,000. A financial consultant was hired as required by the covenant. The financial consultant recommended rate and fee increases. However, these increases were not sufficient to meet the covenant requirement. During 2000, the Emergency Board approved the use of $556,855 in Lottery Funds, which had been allocated for debt service, for the covenant requirement. The debt service was lower than anticipated due to a delay in issuing lottery-backed bonds. The agency will carry forward the Lottery Funds until the debt is repaid during the 2005-07 biennium. The Department of Administrative Services will continue to track these funds to ensure that the covenant requirement is met. The agency was also directed to establish collaborative partnerships with government and private entities to provide in-kind support to the Fair.

Budget Environment

The agency's 2001-03 budget was reduced by $147,402 net General Fund and $559,842 Lottery Funds based on special session actions during the interim. The agency received an additional $23,714 General Fund and $124,637 Other Funds for partial funding of employee salary and benefit increases. This was $8,159 General Fund less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, reduce facilities maintenance, reduce programs and services at the Annual State Fair, and reduce supply and equipment purchases.

State Fair attendance figures have been declining over the past decade, although attendance stabilized between 1995-97 and 1999-01. Total events were projected to remain stable in the 2001-03 biennium. However, attendance at the 2002 Annual State Fair was down 5.7% from the 2001 Annual State Fair. Preliminary indications are that the decline was primarily due to the decline in Oregon's economy, and was significantly less than declines at similar events in the Pacific Northwest.

The agency competes with convention and exposition centers in the region. Many of these convention centers receive some form of subsidy from local governments and have newer facilities. The agency has not historically received a subsidy and would need to charge higher event rates to turn a profit. Also, the deteriorating condition of facilities affects the ability to generate additional revenues. The agency cannot significantly raise fees and remain competitive in this market. The Strategic Plan adopted by the Task Force assumes that, with facility renovation and construction, the agency will be able to expand the number of events and charge somewhat higher rates. However, state funding will be required for facility renovation and for ongoing maintenance.

The 1999 Legislature approved a $698,934 General Fund subsidy to enable the annual State Fair to continue programs, such as agricultural and floral exhibits, that are key to the mission of the agency but do not generate sufficient revenue to cover costs, and to meet cash flow requirements. The 2001 Legislature increased that subsidy to $1.5 million, which was reduced to $1,372,012 by special session actions. The Legislature also directed the Fair by budget note to continue collaborative efforts with state and community leaders, added two county fair members to the State Fair Commission, and established a Community Partnership Task Force to continue the oversight created in the 1999-01 biennium. The Legislature established the expectation that the Fair will demonstrate progress in meeting its operating costs out of the revenue generated, but recognized that ongoing state assistance will be required to maintain Fair facilities.

Governor's Budget

The Governor's budget is a net increase of $1.6 million and an increase 5.13 FTE from the legislatively approved budget. The Governor's budget includes:

- Policy Option Package 101 that provides $1,087,126 in Other Funds expenditure limitation for 8 positions (4.13 FTE) and necessary services and supplies to operate the multipurpose pavilion. The Fair anticipates that the pavilion will be operational in time for the 2004 Annual State Fair, in August of that year. The Fair estimates that facility revenues will cover the additional cost.
- Policy Option Package 102 that provides $359,536 in Other Funds expenditure limitation and 1 position (1.0 FTE) as a result of increased facility rental and other business expansion. The Fair has increased its exposition facilities rental by 25.4% in the past 12 months. This expansion provides additional revenue, but also requires additional staff support and involves additional services and supplies expense. The limitation reflects these increases in security and operating costs.
- Inflation, price list and other adjustments, resulting in increases of $145,679 Other Funds and $18,512 General Fund adjustment.

Fair – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	256,337	3,170,828	2,611,346	4,444,659
Nonlimited	1,397,985	1,311,128	1,311,128	1,219,565
Total	**1,654,322**	**4,481,956**	**3,922,474**	**5,664,224**
FTE	0.00	0.00	0.00	0.00

Program Description

This program pays the principal and interest on construction bonds. The 2001 Legislature added $10 million in lottery-backed bonding authority and increased the debt service from Lottery Funds to $3,170,828. That allocation was reduced by $559,482 by special session action to reflect the reduced interest cost for debt service on lottery-backed bonds.

Revenue Sources and Relationships

The program receives revenue from operations and receives lottery funds revenue to repay debt service on the capital construction and improvement bonds.

Governor's Budget

The $1.8 million Lottery Funds increase in the Governor's budget reflects the biennial cost of the debt service on $20.1 million in lottery-backed bonding authority that the Legislature has approved for the Fair.

Fair – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	11,636,929	10,000,000	10,000,000	0
Total	**11,636,929**	**10,000,000**	**10,000,000**	**0**
FTE	0.00	0.00	0.00	0.00

Program Description

This program reflects bond proceeds for capital construction, and includes the proceeds from bond sales. The 1999 and 2001 Legislatures authorized a combined total of $20.1 million in bonding authority for facilities renovation and construction. The 2001 authority is for $10 million for the construction of a multipurpose pavilion on the Oregon State Fairgrounds.

Revenue Sources and Relationships

The program receives bond proceeds for capital construction.

Governor's Budget

The Governor's budget does not propose further capital construction expenditures.

Oregon Historical Society – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,264,450	1,298,130	1,257,467	1,301,478
FTE	0.00	0.00	0.00	0.00

Program Description

The Oregon Historical Society (OHS) was chartered by the state in 1898 to collect, preserve, exhibit, and publish materials of a historic character. It serves Oregonians through six broad program categories. The Collections program preserves artifacts, books, photographs, films, manuscripts, recordings, and oral histories. The Support program provides support of local historical societies, museums, and heritage efforts statewide. The Facilities program includes the Oregon History Center's regional research library and museum and other sites. Education programs include the Society's mobile museum, school services (traveling artifact kits, museum programs, films, and slide shows), group tours, Folklife and public events, and teacher workshops. The Publications program produces the *Oregon Historical Quarterly* and books from its press. Heritage Services include coordination of the Century Farms and Ranch Program, the Oregon Geographic Names Board, liaison with more than 120 heritage organizations statewide, a speaker's bureau, and staff service on numerous councils, committees, and commissions.

Revenue Sources and Relationships

The OHS is a nonprofit organization that is financed largely by membership fees, contributions, and publication sales. The state provides a supplemental grant through the Department of Administrative Services. In the past, the state grant has amounted to slightly more than 10% of Society's operating budget. The balance of the Society's budget has come from restricted gifts and grants, memberships and unrestricted grants, grants from local governments, operations, and investment income and bequests.

The state grant to OHS was reduced by $40,663 based on special session actions during the interim. Of this, $15,000 was for a statue of former Governor Tom McCall and $25,663 was part of an across-the-board reduction applied to recipients of General Fund. Additionally, the Legislature reduced the grant by another $468,374, but that reduction was vetoed by the previous Governor after the 2002 fifth special session.

Governor's Budget

The Governor's budget is a 3.5% increase over the 2001-03 legislatively approved budget (as restored by the Governor's veto).

Housing and Community Services Department – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	16,142,879	13,920,056	7,306,450	12,728,518
Lottery Funds	0	2,492,073	2,164,495	5,714,677
Other Funds	33,409,639	86,083,224	92,840,504	96,967,293
Federal Funds	71,032,405	76,601,117	105,113,695	106,037,908
Nonlimited-Other	1,104,145,593	599,861,599	1,024,686,004	1,070,121,963
Nonlimited-Federal	60,035,725	153,000,000	153,000,000	94,117,000
Total	**1,284,766,241**	**931,958,069**	**1,385,111,148**	**1,385,687,359**
FTE	122.94	139.21	141.49	152.34

Program Description

The Housing and Community Services Department provides financing and support for the development of affordable housing in the state and for the delivery of services for economically needy Oregonians. The Department works with public, nonprofit, and for-profit organizations to provide affordable housing and with community-based organizations to deliver other services. The Department administers federal and state programs to alleviate homelessness and poverty and also directs the state's mobile home park ombudsman program. The State Housing Council, a seven-member, Governor-appointed board, provides program and policy oversight of the Department.

Over 84% of the Department's total expenditures are related to its bond programs and federal rent subsidies and, therefore, are nonlimited. Bond revenues finance low-interest, single-family mortgages and multi-family housing for low-income and/or senior households. General Fund appropriations are used for homeless and emergency food assistance programs. Other Funds and Federal Funds provide federal housing subsidies, grants to housing developers for low-income housing construction, technical assistance to communities and nonprofit housing developers, weatherization and other energy conservation efforts, heating cost subsidies, food distribution and nutrition programs, the mobile home ombudsman program, and oversight of state-financed housing projects.

Revenue Sources and Relationships

The Department's budget is supported primarily by Other and Federal Funds. Other Funds revenue sources include proceeds from the sale of bonds, mortgage loan principal repayments, Community Integration Project (CIP) loans, interest from investments, renters' refundable deposits, gains on sales of investments and foreclosed properties, and mortgage insurance. Most of the Department's Federal Funds come from the HOME program, Section 8 federal rent subsidies, community services block grants, a low-income energy assistance block grant, an emergency shelter grant, and weatherization assistance funds.

In 1991, the Legislature appropriated $14 million General Fund to establish the Oregon Housing Trust Fund, which is administered by the Department and used to subsidize construction of new, or rehabilitation of existing, affordable housing. In 1993, $1.5 million was added to the corpus, bringing the total to $15.5 million. Trust fund grants can be used for actual construction or rehabilitation costs, mortgage subsidies for eligible multi-unit projects, preservation costs of affordable housing, and pre-development costs such as planning, feasibility studies, appraisals, and architectural plans. The trust fund principal is preserved, and only the interest is used for housing development grants. The corpus of the trust fund has not been increased since 1993.

Lottery Funds are used for debt service on bonds issued from the Community Incentive Fund. The Oregon Livability Initiative, passed in 1999, created the Community Incentive Fund, funded through the issuance of lottery backed bonds. The objective of the fund is to revitalize downtown areas and main streets, to develop affordable housing near jobs and transportation, and to help rebuild distressed communities.

Budget Environment

Several factors indicate that the demand for affordable housing will continue to outpace the available supply in the 2003-05 biennium. Oregon population is expected to increase and housing costs continue to outpace wage growth in the state, suggesting that fewer properties will be affordable for low-income residents. The expected

population growth and increases in housing costs likely will increase the demand for all types of housing including low-income, affordable housing, and emergency shelter.
Another factor adversely affecting the supply of affordable housing is the expiration of time periods agreed to on some multiple family, affordable units. In other words, the owners of these units have maintained them as below-market rentals for the required length of time and can, therefore, convert these units to market-rate rentals. This diminishes the inventory of affordable housing at a time when the demand for new units is still outpacing the supply of such units.

While the Department's programs provide financial support for developing affordable housing, the cost of construction or rehabilitation is such that many units command rents that are still too high for many residents whose income is at or below 50% of the median income level. As a result, a large segment of this population is unable to qualify for the affordable housing developed under the Department's programs or must pay 50% or more of their disposable income for housing.

Homelessness continues to increase in Oregon and, as homelessness grows, the problem of hunger also grows. The number of homeless or at risk of homelessness persons seeking shelter was 9,000 on any given night during the last year. Children accounted for 37% of these individuals. Oregon ranks as one of the highest states in terms of food insecurity.

The agency's 2001-03 budget was reduced by $617,439 General Fund based on special session actions during the interim. Of these reductions, $601,497 were unspecified reductions by the Legislature and the Department chose to reduce funding for the Housing Development and Guarantee Account, the Emergency Housing Account, the Homeownership Assistance Program, the Community Development Corporation, the Homeless Assistance Program, the Emergency Food Program, and the Commission on Voluntary Action and Services.

Additionally, special session actions during the interim also reduced the agency's budget by $6 million General Fund and directed the Department to use $3 million of "new revenue" from unallocated interest earnings of the Housing Trust Fund and $3 million of unrestricted cash reserves to replace the General Fund reduction.

Governor's Budget

The Governor's recommended total funds budget is essentially the same as the 2001-03 legislatively approved budget. Excluding Nonlimited Funds, the Governor's budget is 6.8% above the legislatively approved budget. One-time special session General Fund reductions of $6,226,500 are restored for the Emergency Housing Assistance and Housing Development and Guarantee Account.

The Governor's budget:

- Increases the Other Funds expenditure limitation by $13.7 million for SB 1149 public purpose and bill payment assistance charges;
- Decreases the Other Funds expenditure limitation by $18.1 million to phase-out the Community Incentive Fund, REACH program, HUD Contract Administration, and $3 million in excess limitation;
- Increases the Other Funds expenditure limitation by $913,331 and establishes four limited duration positions for the Housing Opportunities for People with AIDS program;
- Establishes one permanent position for increased workload in the HOME program and the reclassification of a clerical position;
- Establishes one permanent position for farmworker housing compliance funded with revenue generated from the HUD contract administration;
- Establishes one permanent position to address chronic homelessness funded with Federal Funds;
- Increases the Other Funds expenditure limitation by $72,000 for expenses incurred by the Hunger Relief Task Force;
- Increases the Federal Funds expenditure limitation by $2.4 million for the Community Development Block Grant to develop urban communities by providing housing, suitable living environment, and expanded economic opportunities;
- Establishes three permanent Compliance Specialist positions to address increased workload;
- Increases the Federal Fund expenditure limitation by $23.9 million for distribution to non-governmental agencies for low-income energy assistance, low-income weatherization assistance, homelessness, and AmeriCorps programs;

- Establishes 15 limited duration positions for contract administration services for the U.S. Department of Housing and Urban Development; and
- Increases the Other Funds expenditure limitation by $1.4 million to relocate agency staff to the new North Mall Office Building.

Oregon Public Broadcasting – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,350,509	3,399,929	2,049,379	3,448,548
Other Funds	0	7,000,000	7,000,000	0
Total	**3,350,509**	**10,399,929**	**9,049,379**	**3,448,548**
FTE	0.00	0.00	0.00	0.00

Program Description

The Oregon Public Broadcasting (OPB) is an educational and public broadcasting network serving Oregon through noncommercial public television and radio stations. Its network consists of five television and four radio stations, plus 48 translator/repeaters throughout Oregon. The television stations reach an estimated 90% of Oregonians and the radio stations reach between 80% and 90% of Oregonians. Educational programming (formal and informal) is a significant portion of television, while news and information is the main thrust of radio. OPB also is part of the state's Emergency Alert System.

Revenue Sources and Relationships

The 1993 Legislative Assembly privatized OPB and provided for a supplemental grant through the Department of Administrative Services.

The original grant represented about 10% of OPB's estimated revenue. Most of OPB's revenue comes from private contributions. The federal government also provides some funding, and OPB also receives sales and service revenue. The operating grant to OPB was reduced by $1,350,550 based on special session actions during the interim. The $7 million Other Funds provided in 2001 was a one-time grant of Lottery bond proceeds for infrastructure development.

Governor's Budget

The Governor's budget restores the reductions made during the 2002 special sessions.

Oregon Department of Veterans' Affairs (ODVA) - Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,577,619	2,626,159	2,487,073	2,486,698
Other Funds	29,421,956	39,170,684	39,928,758	39,165,089
Nonlimited	675,439,387	948,798,402	948,798,402	805,581,377
Total	**707,438,962**	**990,595,245**	**991,214,233**	**847,233,164**
FTE	175.00	165.00	165.00	147.54

The Oregon Department of Veterans' Affairs (ODVA) has three program areas: the Veterans' Loan Program, the Veterans' Services Program, and the Veterans' Home Program. The Veterans' Loan Program, funded entirely through Other Funds, provides loan servicing and Department administration. It is responsible for repayment of approximately 59% ($1.4 billion) of the State of Oregon's general obligation debt. The Veterans' Services Program provides counseling, claims assistance, conservator services, and partnerships with counties and organizations to support local veterans' programs. The Veterans' Services Program is funded with General Fund and Other Funds from conservatorship fees. The Veterans' Home Program operates a skilled nursing care and Alzheimer's Disease facility in The Dalles, Wasco County.

ODVA – Loan Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	19,453,843	22,747,548	23,458,694	22,329,601
Nonlimited	675,439,387	948,713,402	948,713,402	805,446,377
Total	**694,893,230**	**971,460,950**	**972,172,096**	**827,775,978**
FTE	152.10	142.10	142.10	125.64

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 333,000 home and farm loans with a principal amount over $7.4 billion. The Program is made up of:

- Director's Office - communications, program evaluation, and human resources;
- Loan Services - functions dealing with the loan program, including originating and servicing the loans;
- Financial Administration - overall financial oversight of the Department, including accounting, information services, records, and financial management; and
- Administrative Services – service of loans and contracts once they are delinquent and general support to the agency for daily operations (data entry, forms, procedures, word processing, building management, mail, motor pool, collections, etc.)

Revenue Sources and Relationships

The largest sources of ODVA Other Funds revenues for the 2003-05 biennium are veteran loan and contract-related repayments ($340 million), interest earnings ($256 million), bonding authority ($135 million), insurance premiums ($9 million), and other service charges, licenses, fees and miscellaneous revenues ($1.7 million).

Budget Environment

In the past, the Veterans' Loan Program was prohibited from making loans to any veteran who entered active military duty after December 31, 1976. However, the law now allows certain post-1976 veterans to become eligible for a home loan through ODVA. Although veterans have 30 years from the date of their discharge to apply for loans, an aging veterans' population, the overall reduction in armed forces, and a competitive mortgage market impact the demand for loans. The demand for home loans is expected to decline overall as older mortgages are paid off. During the past several biennia, the loan portfolio has been declining and the Department currently services 16,505 loans as opposed to 24,854 accounts being serviced two years ago. Low interest rates have led to an increase in early loan repayment and lower investment yields, which impact the loan program's financial performance. ODVA's farm/home loan delinquency rate has improved greatly over the years.

Governor's Budget

The Governor's budget recognizes the reduction in loan demand and also eliminates the 3% salary adjustments for all employees in salary range 38 and higher that had been scheduled for 2003. Sixteen positions (16.46 FTE) are eliminated and operating limitation is decreased 4.8% from the 2001 legislatively approved budget. Repayments on loans are expected to reduce the Department's outstanding debt to $1.2 billion.

ODVA – Veterans' Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,577,619	2,626,159	2,487,073	2,486,698
Other Funds	498,872	544,733	570,627	619,097
Total	**3,076,491**	**3,170,892**	**3,057,700**	**3,105,795**
FTE	18.90	18.90	18.90	18.90

Program Description

The Veterans' Services Program includes:

- Counseling and claims ($1 millon), which assists veterans, their dependents and survivors to obtain service-connected and non-service related benefits. Over 13,000 active claims have required service during 2001-03. This program also provides outreach and assistance to individuals in state institutions, hospitals, domiciliaries and nursing homes, to help ensure that adequate care is being provided and that the federal VA pays its share of that care.
- The Conservatorship program ($1.3 million), which provides conservatorship services for 266 veterans and their dependents who are determined to be "protected persons" and who are recipients of U.S. Department of Veterans Affairs' benefits. Conservatorship services are provided when no other entity or person is willing or able to act as conservator. The staff 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.
- Educational assistance and service delivery partnerships, which includes the Aid Program, Aid to Counties, and Aid to Veterans' Organizations ($800,000). Aid to Counties, which began in 1947, is a network of trained individuals operating in 34 Oregon counties to help them provide services to veterans on a local level. Up to 75% of the cost of administering each of the county offices is reimbursed, with a limit of $12,500 per year. Aid to Veterans' Organizations was established in 1949 and consists of partnerships with other veterans' service organizations in Oregon, such as the American Legion, AMVETS, Disabled American Veterans, and Veterans of Foreign Wars. Educational assistance provides financial help to offset some of the educational expenses of honorably discharged Oregon veterans whose GI educational benefits have been exhausted. The program also assists displaced and disabled veteran workers who return to school to change careers or upgrade skills.

Revenue Sources and Relationships

The revenue source for the Claims and Counseling section, educational assistance, and service delivery partnership programs is the General Fund. The revenue sources for the conservatorship program are General Fund and Other Funds through fees. The 2003-05 estimated conservator fees are $619,097.

Budget Environment

Oregon has approximately 368,000 veterans, up from an estimated 356,000 two years ago. The aging veteran population is increasing the demand for veterans' benefits, assistance, and conservatorship services. Additional needs have been created by veterans of recent conflicts with claims resulting from the environment in which they served, including claims related to Agent Orange and Post Traumatic Stress Disorder. The need for services is increasing at a time when the services available remain constant or may decline, especially at the county level. The state is required to provide educational aid to eligible veterans who request it; funding for Aid to Counties and Aid to Veterans' Organizations is discretionary. Oregon counties may discontinue or reduce their level of support for local Veterans Services' Offices, leaving veterans without local services. This further increases the demand on ODVA for services. ODVA's inability to provide service, however, could shift workload to state public assistance agencies.

There are a number of factors that affect the workload of the program, including the rapid evolution in health care programs, increasingly complex health claims, an aging war veteran population, and downsizing of the U.S. Armed Forces and resulting separation of veterans who use educational and vocational rehabilitation programs. The Department has dealt with the workload through a combination of improvements in processes and automation. However, projecting actual workload is difficult because the number of veterans who may access services is unpredictable.

The program's 2001-03 budget was reduced by $186,445 General Fund based on special session actions during the interim. The agency received an additional $47,359 General Fund for partial funding of employee salary and benefit increases. To manage the reductions, the agency took one-time actions to defer various service and supplies expenditures and reduced payments to counties and other service providers.

Governor's Budget

The Governor's budget continues reductions made in the program, particularly with respect to payments to counties and other service providers. Inflationary increases in General Fund for goods and services and increases in employee salaries and benefits costs have been offset by a $365,542 reduction to the 2001-03 adopted budget for payments to counties and other service providers.

ODVA – Veterans' Home

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	9,469,241	15,878,403	15,899,437	16,216,391
Nonlimited	0	85,000	85,000	135,000
Total	**9,469,241**	**15,963,403**	**15,984,437**	**16,351,391**
FTE	4.00	4.00	4.00	3.00

Program Description

The Oregon Veterans' Home in The Dalles provides skilled nursing and Alzheimer's disease care to Oregon veterans. The Home opened in November 1997 and has a bed capacity of 151 residents. Funding for construction and equipping of the facility was from a 65% federal grant matched to a 35% state obligation contributed by Wasco County. The Home is operated with a philosophy of maximum resident independence and encouragement for the residents to function at their highest possible level.

Revenue Sources and Relationships

The Veterans' Home Program consists solely of Other Funds. Revenues are primarily moneys received from the residents of the Home, Medicare reimbursement, and a per diem amount received directly from the federal Veterans Administration. Veterans who reside in the Home receive benefits not available to them if they reside elsewhere. Veterans receive aid and attendance benefits with their regular pension, and their social security benefits also provide revenue with which to pay for their care in the Home. The total amount of revenue is based in part on the occupancy projections obtained from the Home's contrator. Expenditures of donations to the home are budgeted as Nonlimited expenditures.

Budget Environment

Expenditures for the Home relate to the cost of providing residential care. Operation of the Home was contracted out to a health care service provider. Obtaining and maintaining a high occupancy rate at the Home is important to the financial condition of the Home. As of late summer 2002, the Home had an occupancy rate of 66%. This is below the expected 85% occupancy level. Shortages of qualified nursing personnel have contributed significantly to lower-than-expected growth in staffing and occupancy levels. The Home has a waiting list of qualified applicants that could be accommodated if staff were available.

Governor's Budget

The Governor's budget reflects lower than expected occupancy rates. It is a 2% increase over the 2001-03 legislatively approved budget. It also eliminates a Volunteer Program Manager due to insufficient revenues.

NATURAL RESOURCES

Department of Agriculture (ODA) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	23,839,684	22,205,425	17,882,719	20,623,902
Lottery Funds	3,754,646	6,858,105	7,522,512	7,060,152
Other Funds	36,024,863	42,540,763	46,613,808	51,776,944
Federal Funds	2,890,631	3,772,363	8,565,136	5,089,884
Total	**66,509,824**	**75,376,656**	**80,584,175**	**84,550,882**
FTE	423.20	432.88	423.00	432.41

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 activities. Producers are active in over 200 major commodities with a farm level value of more than $3.5 billion per year. Another $2 billion per year can be counted as value-added through food processing activities.

The Department consists of permanent staff and up to 450 seasonal employees. The permanent staff are primarily located in Salem, Portland, or one of nine regional offices. Some permanent staff in the Food Safety, Measurement Standards, and Animal Health and Identification Divisions work out of their homes. Seasonal employees are used to provide industry requested inspection services in the Commodity Inspection, Animal Health and Identification, and Plant Divisions and are located throughout the state.

Governor's Budget

The Governor's recommended budget for the Department of $84.6 million total funds is 5% above the 2001-03 legislatively approved budget. This growth over 2001-03 legislatively approved levels is caused by a $5.2 million Other Funds increase created in part by additional revenue from fee increases and a $2.7 million General Fund increase created by reversal of one-time shifts to Other Funds implemented in special sessions to address the state-wide General Fund revenue shortfall. The recommended budget includes $20.6 million General Fund and $7 million Lottery Funds. General Fund is reduced $3.2 million, or 13.5%, from 1999-01 levels. Lottery Funds from Measure 66 are used in the Governor's budget for support of Soil and Water Conservation Districts and riparian/wildlife habitat weed control grants. The budget also includes $3.2 million Lottery Funds for support of county fairs. The Governor's budget supports a total of 432.41 FTE.

ODA – Administration and Support Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,206,700	1,294,925	1,284,211	1,496,001
Other Funds	4,900,831	5,032,859	5,228,194	5,985,132
Total	**6,107,531**	**6,327,784**	**6,512,405**	**7,481,133**
FTE	43.04	43.04	42.46	43.46

Program Description

Administration and Support Services provides policy direction and support functions for the agency, including financial management, development and maintenance of information systems, public information, personnel, purchasing, budget development, grants administration, license processing, facilities management, and fleet operations. The Office of the Director is also included within the Administration and Support Services program area. The program also provides accounting services for the Beef Council and auditing services for the other commodity commissions.

Revenue Sources and Relationships

Approximately 20% of the program's expenditures are financed by General Fund dollars. Other Fund revenues include service charges, cost reimbursements, management assessments for central administrative services, and transfers from other and federally funded program areas. The method used to assess central administrative costs varies depending on the program's funding source. General Fund programs do not contribute to central services since the Administrative Services Division receives a separate General Fund appropriation. Other Fund programs contribute based on a total budget/transaction formula. Programs dealing primarily with pass-through funds are assessed at a lower rate. Federal Fund programs are assessed at a federally approved indirect rate. Federal Funds received directly by the Administration and Support Services program area are from the U.S. Department of Agriculture's Farm Services Agency.

Budget Environment

The need for administrative and support service functions within the agency continues to rise as external demands on agency programs increase. The agency's budget for this policy area was reduced $43,298 General Fund based on special session actions during the interim. To manage the reductions the agency held positions vacant.

Governor's Budget

The Governor's recommended budget for Administration and Support Services is 13% above the 2001-03 legislatively approved budget. The recommended General Fund appropriation of $1.5 million for Administration and Support Services is up 16% from 2001-03 approved expenditures. This increase is due to inflation and computed salary changes. The recommended budget includes an increase of $187,476 Other Funds for an Information Specialist position to support department-wide information technology projects, including database improvement, increased electronic reporting, and to improve agency utilization of the Internet.

ODA – Food Safety

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	6,237,445	6,325,644	4,573,807	4,762,553
Other Funds	14,753,169	16,160,611	17,744,864	20,446,182
Federal Funds	120,104	309,896	310,329	321,137
Total	**21,110,718**	**22,796,151**	**22,629,000**	**25,529,872**
FTE	136.53	137.88	134.41	136.12

Program Description

The Food Safety Policy Area consists of the Food Safety, Measurement Standards, Animal Health and Identification, and Laboratory Services Divisions. These divisions are primarily responsible for addressing public concerns over the safety of the food supply, the regulation of livestock diseases, and the accurate labeling and packaging of food products and other goods.

- The ***Food Safety*** division's mission is to ensure a safe, wholesome and properly labeled food supply. The program is implemented by a combination of central support staff and field inspectors to license and inspect all food establishments except food service providers. The Division uses 36 field inspectors located throughout the state to sample food and inspect over 8,500 facilities including dairies, food processors, grocery stores and meat markets, food storage warehouses, bakeries, delicatessens, and home kitchens operated for commercial purposes. Inspectors examine food handling practices and equipment for safety and cleanliness. The Division also operates the shellfish program to monitor shellfish and their habitats for bacteria and toxins.
- The ***Measurement Standards*** division licenses and inspects measuring devices to prevent consumer fraud by ensuring goods are accurately weighed and measured. Devices licensed and/or examined by the Division include store checkout scales and scanners, gas station pump meters, truck scales, livestock scales, propane bottle fill and truck delivery meters, produce scales, and railroad track scales. The Division also ensures motor fuels meet national quality standards. Weighing and measuring devices are licensed, inspected, and certified by 20 field inspectors. It is projected that the Division will examine 50,796 devices in 2003.
- The ***Animal Health and Identification*** division protects Oregon's human and animal communities from infectious animal diseases and deters livestock theft through the registration and inspection of livestock brands. The Division also regulates and permits exotic animals, regulates commercial feeds, and operates animal damage control programs in partnership with local governments and the U.S. Department of Agriculture. The Division includes 67 brand inspectors who inspect all cattle sold in Oregon and all cattle and horses leaving the state to ensure legal ownership. Veterinary products and commercial feeds are registered and monitored for compliance with state and federal laws.

- The *Laboratory Services* division provides analytical services for the Department's food safety, pesticide, natural resource, feed, and fertilizer regulatory programs. The lab program uses physical, chemical, microbiological, immunological, molecular, and chromatographic methods to test food and feed supplies. The Division also provides an export certification program through the Export Service Center (ESC) to assist domestic companies in meeting the food safety import requirements of foreign countries. The ESC is a certified customs laboratory for Japan, Taiwan, and Korea, which eases entry of Oregon agricultural products into these markets. The regulatory food safety laboratory was reorganized and merged with the ESC laboratory as a cost saving measure during the 2001-03 interim.

Revenue Sources and Relationships

The Food Safety Policy Area is funded primarily through Other Funds consisting of licenses issued to wholesale and retail businesses, charges to public and private entities for lab analysis, veterinary product registration fees, livestock brand inspection service fees, and other registration fees and charges for services. Some services for federal agencies under service contracts are reported as Other Funds. Roughly 19% of funding comes from the General Fund, which is a decrease from previous levels when General Fund comprised almost 30% of the 1999-01 budget. Federal funding consists of grants for Laboratory Services, funds for the Animal Health and Identification Division relating to brucellosis testing, and contracts for random sampling of products.

Budget Environment

Several factors continue to contribute toward increases in workload. Population growth brings a corresponding increase in the number and complexity of food establishments. In addition, food product sampling and testing done under contract for the Food and Drug Administration (FDA) more than tripled in 2000-01. It is likely the FDA will continue to request an increase in state inspections as it diverts resources toward Homeland Security issues. Potential threats to the state's food supply have also caused the Food Safety Division to work with federal authorities to enact cooperative efforts to reduce the likelihood of food related bioterrorism.

Changes in commercial weighing, measuring, and packaging technologies have made monitoring measures and labels more difficult. The Measurement Standards Division is responding to additional federal standards and increased demand for technical assistance from businesses. The Animal Health and Identification Division faces the challenge of maintaining program effectiveness with reduced General Fund support and forestalling fee increases. To assist with the growing workload, the 1999 Legislature authorized 10 additional positions for measurement inspection, continued 3 positions for food safety inspection, added 2 part time brand inspectors, and continued funding for positions in animal health. The 2001 Legislature added 2 drinking water inspector positions and 3 positions to implement HB 3815 which established authority for fertilizer registration, evaluation, tonnage fees, and bulk distributor licenses.

The agency's budget for this policy area was reduced by $1.9 million General Fund based on special session actions during the interim, including partial funding of employee salary and benefit increases. To manage the reductions the agency took one-time actions to draw down cash balances from fee revenue, consolidate laboratory services through reorganization, and hold positions vacant. Other reductions include discontinuing a bear damage study, eliminating support for the federal predator control program, and shifting funding for positions from General Fund to Other Funds. These actions result in 2003-05 savings of $0.9 million.

Governor's Budget

The Governor's recommended budget is roughly 12% above the 2001-03 legislatively adopted level. Although the budget increased in total, General Fund expenditures are about 25% below the 2001-03 legislatively adopted level due to reductions taken during special sessions and a $926,945 program reduction. In this program reduction funding is eliminated for the federal predator control program, a lab services position is eliminated and funding is reduced for routine packaged product weight and/or measurement sampling. In addition, two food safety field positions, a veterinarian position and portions of 18 positions conducting packaged product weight or measurement sampling are shifted to Other Funds.

An additional $597,864 Other Funds is included in the Governor's budget to fund two food safety inspection positions needed to accommodate the increasing number of U.S. Department of Agriculture (USDA) contracted inspections. The USDA annually contracts with the Department to conduct food safety inspections on its behalf. The number of contracted inspections has increased dramatically in recent years. The Department receives and expends these contract amounts as Other Funds. The budget also includes $166,000 Other Funds in anticipation of a statutory increase in livestock brand fees for brand recording and inspection activities. One position was added in the Commercial Feed Inspection program to inspect for threats to animal health from commercially produced feed. The budget is increased $95,054 Other Funds and 0.50 FTE for this new position.

ODA – Natural Resources

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	10,389,653	11,686,770	9,631,963	11,807,344
Lottery Funds	3,754,646	3,758,105	4,461,262	3,893,052
Other Funds	7,604,087	10,993,035	12,722,296	13,679,672
Federal Funds	2,732,814	3,401,235	4,473,575	4,705,372
Total	**24,481,200**	**29,839,145**	**31,289,096**	**34,085,440**
FTE	134.69	143.02	137.28	143.61

Program Description

The Natural Resource Policy Area includes the Natural Resources, Pesticides, and Plant Divisions. These three divisions are responsible for protecting the state's agricultural natural resource base.

- The ***Natural Resources*** division's mission is to conserve, protect, and develop agricultural natural resources on public and private land to ensure agriculture will continue to be productive and economically viable. The Division administers programs to: provide administrative oversight and financial assistance to Soil and Water Conservation Districts; regulate confined animal feeding operations (CAFOs); protect threatened and endangered plants; conduct field burning smoke management and research; implement agricultural water quality management (SB 1010); and conduct groundwater research and development. The Division consists of 31 Salem based staff and 8 field staff positions.
- The ***Pesticides*** division administers state laws regulating the availability of fertilizer and pesticide products, and the uses of these products. Fertilizer regulation involves the content of plant nutrients contained in fertilizers used for consumer, agricultural, and forest purposes. Naturally occurring materials, such as manure and compost, are not regulated. Pesticide regulation includes product registration, distribution and use recording, user licensing, and use of the products.
- The ***Plant*** division uses permanent staff and seasonal employees to detect and eradicate exotic insect pests, weeds, and plant diseases, and to inspect and certify nursery stock, Christmas trees, and seed crops for pests and diseases. The Division also includes inspection of imported exotic raw logs and wood products. The program supports a forest pathologist position through fee revenues. The spread of invasive plants on public and private land remains a growing concern for land managers. The State Weed Board helps set priorities for the control of nuisance invasive plant species and funds local and regional weed control projects.

Revenue Sources and Relationships

The Natural Resource Policy Area is funded by a variety of revenue sources. General Fund dollars and Lottery Fund revenues provide roughly half of the policy area revenue, but are provided primarily to the Natural Resources and Plant Divisions. The Pesticides Division receives General Fund as partial payment for the establishment of the statewide pesticide use reporting system. Lottery Funds were provided to the Plant Division beginning in the 1999-01 biennium for weed control activities from Measure 66 funds dedicated to salmon and habitat restoration. Lottery Funds are also provided to the Natural Resources Division for pass through to support Soil and Water Conservation Districts. Other Funds include revenue from licenses and fees, such as oyster fees, CAFO registrations, field burning fees, nursery and Christmas tree licenses, and pesticide applicator fees. Other Funds also includes revenue from reimbursable work and charges for services. Federal Funds are received for plant conservation and water quality programs through cooperative agreements with the U.S. Environmental Protection Agency, the U.S. Department of Agriculture, the Bureau of Land Management, and the Bonneville Power Administration.

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. Nonpoint source pollution control, threatened and endangered plant species, confined animal feeding operations, pesticide reporting, and field burning alternative programs will continue to call for agency attention. The Natural

Resources Division has also continued to develop model conservation plans for the 58 species on the state list of threatened and endangered plants. This list was reduced from 61 species during 2001-03.

The Department's Natural Resources Division has a prominent role in the state's Oregon Plan for the restoration of salmon and watersheds. The Division is charged with implementing aspects of the plan dealing with water quality standards in agricultural areas. Under the provisions of SB 1010 (1993) and the Oregon Plan, staff work with landowners to develop agricultural water quality management plans to meet state water quality standards in basins where agricultural nonpoint source pollution is a major factor. In conjunction with this effort, the Division also has positions dedicated to work with confined animal feeding operations (CAFOs) to improve the level of compliance with water quality regulations. As part of the Division's efforts to achieve delegation from the Environmental Protection Agency for Clean Water Act CAFO permit responsibilities the CAFO administrative rules were evaluated and rewritten. State efforts to enhance salmon populations and riparian habitat have also focused attention on local Soil and Water Conservation Districts (SWCDs). The Natural Resources Division has worked with the existing 45 SWCDs to deliver conservation programs for water quality improvements and watershed management.

The Pesticides Division is responsible for implementing a statewide pesticide use reporting system (PURS) established by the Legislature in HB 3602 (1999). The reporting system was designed with a phased-in approach using the 1999-2001 biennium to create a framework. The 2001 Legislature adopted two components for PURS system development, one to address operational costs of the system and one to address the one-time development costs. Funding allocated by the 2001 Legislature to implement PURS totaled $2.1 million General Fund and $350,000 Other Funds. One of the components of this funding was to provide support for operation of the system by providing $0.7 million split equally between General Fund and Other Funds from pesticide fees as required by statute. Six additional full-time permanent positions for the program were established, to be phased-in during the 2001-03 biennium as system development was completed.

The second of the PURS funding components was to provide support for one-time development costs of the reporting system. Project development costs were provided largely from the General Fund, since registration fee revenues were not sufficient to cover much of the anticipated costs beyond the operational expenditures. The 2001 Legislature provided $0.3 million General Fund and $0.2 million Other Funds from pesticide fee revenue in the agency's budget. Another $1.5 million General Fund was set aside for a special purpose appropriation to the Emergency Board for allocation to the Department for system development following reporting requirements approved in a budget note. At the April 2002 Emergency Board meeting, $200,000 from the special purpose appropriation was allocated to the Department to continue PURS development. During the third special session, $167,882 was allocated to the Department from the special purpose appropriation and $948,464 was disappropriated for use toward the statewide rebalance effort, leaving $167,882 in the appropriation. At its October 2002 meeting, the Emergency Board denied a request for a final installment of $167,882 from the special purpose appropriation for PURS development needed to complete system development. After this denial of funding the agency suspended further PURS development.

The agency's budget for this policy area was reduced by $2.8 million General Fund based on special session actions during the interim, including partial funding of employee salary and benefit increases. Of this total reduction, $2.2 million General Fund was reduced as part of a one-time fund shift that moved $5 million in salmon recovery and watershed restoration activities in a number of natural resources agencies from General Fund to Lottery Funds and Federal Funds. To manage the remaining reductions the agency took one-time actions to hold positions vacant and reduce the General Fund administrative support subsidy for the Smoke Management program. The agency also eliminated General Fund support for the state Threatened and Endangered Plant Conservation program, shifted a portion of the Weed Control program to Measure 66 Lottery Funds and eliminated a water quality position. These actions resulted in 2003-05 savings of $0.8 million.

Governor's Budget

The Governor's recommended budget for the Natural Resource Policy Area totals $34.1 million, roughly a 9% increase from 2001-03 legislatively approved levels and about a 14% increase from 2001-03 legislatively adopted levels. The recommended budget includes a proposed General Fund appropriation of $11.8 million, up roughly 1% from the 2001-03 legislatively adopted budget. This is an increase of almost 23% from the approved level due to the reversal of a one-time fund shift of General Fund using Measure 66 Lottery Funds and Federal Funds from the Pacific Coastal Salmon Recovery program. With this reversal, Lottery Funds are continued slightly above the 2001-03 adopted budget. Lottery Funds are included in the recommended budget to continue pass through funding for Soil and Water Conservation Districts and to support the Plant Division's Weed Control Program. The recommended budget includes an increase of 24% in Other Funds limitation from 2001-03 adopted levels. This increase is caused by full phase-in of 2001-03 compensation actions, inflation, anticipated increasing demand for nursery inspections and additional research efforts. Federal Funds expenditure limitation is continued at 5% above the legislatively approved level.

The recommended budget includes several program reductions, enhancements, and proposed fund shifts within the Natural Resource Policy Area.

- $866,931 General Fund is reduced by elimination of one water quality program position involved in implementation of agricultural water plans, a shift of support for the Threatened and Endangered Plant Conservation program to Federal Funds, and shifting field positions in the Weed Control Program from General Fund to Measure 66 capital Lottery Funds from the grant program.
- Measure 66 Lottery Funds passed through to support Soil and Water Conservation Districts is reduced $160,036 to meet a shortfall in Measure 66 operating revenue.
- Measure 66 Lottery Funds to support the Plant Division's Weed Control Program is increased $103,627 to reflect the forecasted increase in available capital expenditure Lottery Funds. Total support for the Weed Control Program in the Governor's budget is $1,387,206.
- $780,539 Federal Funds and $231,758 Other Funds are added to respond to Sudden Oak Death disease. This funding would support two limited-duration positions, a Natural Resource Specialist 1 position and a Natural Resource Specialist 3 position, and the reclassification of an existing position. These positions would be involved in researching, surveying, monitoring, and eradicating plants exposed to Sudden Oak Death disease. Other Funds revenue is derived from nursery certifications made to ensure nursery stock is free of the disease.
- The Plant Division is enhanced $700,000 Other Funds to meet increasing demand for seed export testing, nursery research, and Christmas tree research programs. Other Funds fee revenue from the nursery program will support the program.
- $400,000 Other Funds is added from fertilizer fees to provide special payments for research and development on fertilizer contamination on ground or surface water. These research grants would support the work of the Fertilizer Research Committee, which was established in HB 3815 (2001). The grants would be supported by a tonnage tax paid on the registration and sale of fertilizer.
- $100,000 Other Funds is added for increased activities in the Confined Animal Feeding Operation (CAFO) program caused by an estimated 200 additional operations being subject to permit requirements. The funds will support inspections, processing permits, education, and outreach.

ODA – Agricultural Development

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,365,594	2,501,168	2,082,702	2,558,004
Other Funds	8,338,363	9,780,402	10,326,439	11,021,103
Federal Funds	17,963	61,232	3,781,232	63,375
Total	**10,721,920**	**12,342,802**	**16,190,373**	**13,642,482**
FTE	106.52	105.52	104.80	104.80

Program Description

The Agricultural Development Policy Area consists of the Agricultural Development and Marketing Division and the Commodity Inspection Division. The mission of the Agricultural Development and Marketing Division is to work with the state's agricultural producers to increase sales in both domestic and international markets through product and market development of high value-added food and agricultural products. The program provides producers with information on product positioning, market research, sales promotion, buyer access, logistical and transportation planning, and tariff and non-tariff barrier consultation. The Division organizes, coordinates, and participates in agriculture trade shows and wholesaler technical seminars in both offshore and domestic markets. The Division's primary geographic emphasis is on Pacific Rim markets, and to a lesser degree Europe and the Americas. The program attempts to provide assistance to the state's small to medium sized companies in need of expanded markets while providing new trade opportunities to experienced exporting businesses.

The Commodity Inspection Division assists growers and industry in moving products into the domestic and international markets through inspection, grading, and certification. During the 2001-03 biennium the Division implemented Good Agricultural Practices and Handling Practices audits at the behest of industry. This effort provides official third party verification of efforts to reduce microbial contamination of fresh fruits and vegetables. The Shipping Point Inspection program provides inspection on over 2.6 billion pounds of produce for processing (primarily potatoes) and 1.4 billion pounds of fresh fruit, vegetables, and nuts each year. The Division seeks to protect consumers and producers through the detection of questionable seed industry practices and through the grain inspection and grain warehouse programs.

Revenue Sources and Relationships

The Agricultural Development and Marketing Division is funded primarily by the General Fund. The Division receives a small amount of Other Funds from outside marketing projects. Federal Funds are received for special commodity marketing projects. The Commodity Inspection Division is entirely funded by Other Funds revenues from inspection, certification fees, and establishment licenses.

Budget Environment

Oregon agricultural producers currently sell 85% 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.

The 2001-03 budget for this policy area was reduced by $0.5 million General Fund based on special session actions during the interim. To manage these reductions, the agency took one-time actions to delay filling vacant positions and reduce services. In addition, a position participating in Community Solutions Teams was eliminated and minimal General Fund support of licensed grain warehouses inspections was eliminated.

Governor's Budget

The Governor's recommended budget is 10.5% above the 2001-03 legislatively adopted budget. The budget is 15.7% less than the 2001-03 legislatively approved budget due largely to phasing-out of a one-time $3.7 million federal Specialty Crops grant. The budget is reduced $139,237 General Fund by elimination of a position in the Agricultural Development and Marketing Division. The budget adds $249,886 General Fund to cover a rent shortfall for Agricultural Development and Marketing Division office space in the Food Innovation Center. An additional $205,798 Other Funds and 1.50 FTE are added to implement the Good Agricultural Practices (GAP)/ Good Handling Practices (GHP) and Identity Preserved programs. GAP and GHP will assure that producers and handlers meet the federal Standards for Minimizing Microbial Contamination to Fresh Fruits and Vegetables. The IP program would certify commodities are free from genetically engineered agricultural products. Audits and certifications would only be conducted at the request of an applicant and all services would be supported by fees for the services provided.

ODA – Special Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,360,579	228,123	155,605	0
Lottery Funds	0	3,100,000	3,061,250	3,167,100
Other Funds	374,611	573,856	592,015	644,855
Federal Funds	19,750	0	0	0
Total	**3,754,940**	**3,901,979**	**3,808,870**	**3,811,955**
FTE	2.42	3.42	4.05	4.42

Program Description

The Special Programs Policy Area consists of various administrative and policy functions not included in other departmental program areas:

- The ***Wine Advisory Board*** administers industry funds for research, development, and market promotion projects with three staff positions.

- The ***Pesticide Analytical Response Center (PARC)*** operates an interagency evaluation of pesticide exposure incidents.
- The ***Farm Mediation*** program is designed to reduce the cost of resolving loan problems by providing a neutral mediator to assist farmers/ranchers address nuisance complaints, contract disputes, labor problems, and other concerns.
- ***County Fairs*** are provided state support as a pass-through by the Department for financial assistance related to county fair activities.

Revenue Sources and Relationships

The primary funding source for the Special Programs Policy Area had been Lottery Funds until the 1997 Legislature shifted funding support to the General Fund. For the 1997-99 and 1999-01 biennia, the Legislature provided $3 million General Fund for support of county fairs. The 2001 Legislature shifted County Fair funding back to Lottery Funds for 2001-03 and future biennia with the passage of HB 3530. This bill allocates 1% of the net proceeds of the lottery to the County Fair Account, but not to exceed $1.55 million per year, adjusted biennially by the change in the Consumer Price Index and directs that County Fair funds are distributed on an equal share basis to each county.

General Fund is used in the PARC program for enforcement activities. Other Funds revenue is collected from the Wine Advisory Board for reimbursement of staff expenses and state government service charges.

Budget Environment

While Oregon wine production has grown 34% since 1999, Oregon producers face increased competition from wine imports which have reached record levels. The Wine Advisory Board is seeking to expand international trade, and is working in cooperative regional partnerships to expand the marketing potential of Oregon wine sales.

During the 2002 fifth special session the 2001-03 budget was reduced $72,518. To manage this reduction, funding for the Pesticide Analytical Response Center (PARC) program was eliminated.

Governor's Budget

The Governor's budget continues termination of funding for the PARC, resulting in savings of $236,730 General Fund and $130,489 Other Funds. The Governor's budget includes an additional $123,554 Other Funds and increased staffing by 1.0 FTE to make permanent an existing limited-duration Principle Executive Manager C to support the Wine Advisory Board. The budget includes distribution of $42,195 Lottery Funds to county fairs from interest earned on the Oregon County Fair Account. The Governor's budget includes $3,167,100 Lottery Funds funding for county fairs.

ODA – Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	279,713	168,795	154,431	0
Other Funds	53,802	0	0	0
Total	**333,515**	**168,795**	**154,431**	**0**
FTE	0.00	0.00	0.00	0.00

Program Description

Debt service represents repayment of certificates of participation (COPs) issued in 1995-97 and used to buy equipment for the new food innovation center in Portland. Debt service costs were incorporated in the Food Safety Policy Area budget until a subsection was included in the agency's 1997-99 appropriation bill to separately identify debt service payments.

Revenue Sources and Relationships

The Legislature approved debt service of $168,795 General Fund as the final biennial payment for the debt issued relative to the purchase of equipment for the food innovation center. Debt service had previously been calculated on a pro-rata basis of General Fund and Other Funds. During the 2002 second special session this budget was reduced $14,364 from savings on debt service created by lower than anticipated interest rates.

Governor's Budget

No further debt service payments are required on equipment purchased for the food innovation center.

Columbia River Gorge Commission (CRGC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	**666,061**	**680,716**	**692,498**	**748,316**

Program Description

The Columbia River Gorge Commission 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 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.

The Commission functions as the permanent regional land use policy body for the Scenic Area, a 292,000-acre region stretching along both shores of the Columbia River for 80 miles, just east of the Portland OR-Vancouver WA metropolitan area. The Columbia River Gorge encompasses three counties in Oregon (Hood River, Multnomah, and Wasco) and three in Washington (Clark, Skamania, and Klickitat) and includes 13 designated Urban Areas. The Commission consists of 13 members, one appointed by each of the six counties within the Scenic Area, six appointed by the two states (three by each Governor), and one ex officio, non-voting member appointed by the U.S. Secretary of Agriculture. The Commission's office is in White Salmon, Washington, and functions with employees of the State of Washington.

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 and natural resource elements of the Scenic Area. Five of the 6 counties are implementing the management plan through locally adopted land use ordinances. Klickitat County, Washington, has not adopted land use ordinances, leaving review of proposed developments to the Gorge Commission.

Revenue Sources and Relationships

The Columbia River Interstate Compact requires each state to pay its Commission members' expenses and to contribute equally to operating costs. 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 Gorge Commission initiated a monitoring program in 1997 designed to track various components of the National Scenic Area. One of the products of the monitoring program, the "Growth Report," was released in April 1998, detailing development patterns and trends of the past ten years with special focus on new houses and land divisions within the Scenic Area. The Commission also described economic development activities with an "Economic Monitoring Report," released in January 1998. The report focuses on economic trends in the Gorge and provides details on economic development activities, including the investment of funding from the Scenic Area Act towards construction of the Skamania Lodge and the Gorge Discovery Center.

The Commission expected to complete review of the Management Plan and any necessary Plan updates to meet the ten year timeline included in the Scenic Area Act by fiscal year 2002. Lack of funding has slowed the progress for completing the review. The review includes a public process framed by comment on a set of six monitoring reports developed by commission staff in conjunction with Scenic Area partners. The draft reports on scenic resources and on agricultural and forest lands were released for public comment in July 2000 followed by reports on natural, cultural, and recreational resources and on economic development grants and loans in the Scenic Area. The Commission's scope of work for Plan review projects completion by July 2004.

The Commission sees continued rapid growth in the Portland/Vancouver metropolitan area as its major concern for the next 20 years. Population projections for the Portland Metro area predict an increase of approximately 450,000 individuals over the next 20 years, to a total of more than 1.9 million residents. The proximity of the entire Gorge area to this population base affects planning efforts by 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 Commission identified five key strategies and objectives for fulfilling its goals in the 2003-05 biennium, including: 1) protect and provide for the enhancement of the scenic, cultural, recreational, and natural resources of the Columbia River Gorge; 2) support the economic vitality of the Gorge by encouraging growth to occur in existing urban areas; by allowing future economic development in a manner that is consistent with scenic, natural, cultural, and recreational resource protection; and by protecting and encouraging agriculture and forestry in the scenic area; 3) increase citizen understanding and participation in decision-making processes in the National Scenic area; 4) coordinate effective and consistent implementation of the Management Plan by county governments; and 5) take advantage of the Gorge Commission's unique position as a bi-state regional agency to provide a gorge-wide approach to issues, make efficient use of public resources throughout the Gorge, support interagency projects and problem solving.

According to the Commission, base funding levels for Commission activities represents the most limiting factor affecting fulfillment of key strategies. Oregon and Washington frequently fund at a different level than the other. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another.

The agency's 2001-03 budget was reduced by $40,828 General Fund based on special session actions during the interim. The agency received an additional $11,230 General Fund for partial funding of employee salary and benefit increases, $4,229 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay purchases and used federal grant funds for publication and geographic information systems programming. The Commission does not expect to receive federal funds in the 2003-05 biennium.

CRGC – Joint Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	**637,234**	**649,056**	**670,838**	**726,373**

Program Description

The Commission's joint 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. The joint program services are provided by 8.25 FTE, all of which are considered to be employees of the State of Washington. The staff positions include an Executive Director, three planners, an outreach coordinator, two administrative support positions, legal counsel (0.75 FTE), and a GIS coordinator (0.50 FTE). The provisions of support to counties within the National Scenic Area for activities related to the Act's implementation are not included in the joint program budget.

Governor's Budget

The Governor's recommended budget for the Commission's joint program activities of $726,373 represents an increase of 8% over the 2001-03 legislatively approved expenditure level. Although the Governor's recommended budget includes no program option packages to enhance current programs, the budget reflects the impact of the 2002 fifth special session reductions on 03-05 expenditure levels as $124,603, but adds back the General Fund allocation since any reduction in funding will have the unintended result of doubling the impact to the agency. Any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. The budget also includes a net increase of $55,535 General Fund for inflation and price list adjustments. In addition to the standard inflationary rate calculation, the recommended budget is adjusted for partial funding of employee compensation and increases in liability insurance rates.

CRGC – Oregon Commissioner Expenses

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	**28,827**	**31,660**	**21,660**	**21,943**

Program Description

Under the Compact, each state is required to pay for its own appointed commissioner expenses. The commissioner expense budgets of Oregon and Washington are not required to match due to differences in compensation practices between the states. The commissioner expense budget includes expenditures for personal services, per diem, and travel expenses related to attendance at meetings of the Columbia River Gorge Commission. The agency was directed to establish the Oregon Commissioner Expenses program unit for the 2001-03 biennial budget to avoid confusion with the Joint Program expenses that require an equal match with the funding level decided by the State of Washington.

Governor's Budget

The Governor's recommended budget funds commissioner expenses at $283 more than the 2001-03 legislatively approved level. The slight increase from the 2001-03 legislatively approved expenditure level is the result of an adjustment in the base budget for standard inflation rate calculations for services and supplies.

Office of Energy (OOE) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,425,000	900,000	867,872	0
Other Funds	11,245,202	14,785,812	15,227,667	16,979,264
Federal Funds	4,897,050	7,043,665	7,139,629	7,495,674
Nonlimited	112,765,266	142,638,525	142,638,525	152,439,524
Total	**130,332,518**	**165,368,002**	**165,873,693**	**176,914,462**
FTE	77.55	77.94	77.94	82.77

In 1995, the Department of Energy was transferred to the Department of Consumer and Business Services (DCBS) where it was created as a division and renamed the Office of Energy (OOE). The 1999 Legislative Assembly removed the Office of Energy from the DCBS and re-established it as a separate agency.

The mission of the agency is to protect Oregon's environment by saving energy, developing clean energy sources, and cleaning up nuclear waste. The OOE also staffs two policy and regulatory boards:

- the Energy Facility Siting Council, a seven-member citizen board created by the 1975 Legislature and appointed by the Governor that decides whether large energy facilities may be built in Oregon; regulates the construction, operation, and decommissioning of energy facilities; and oversees the disposal of low-level radioactive wastes; and
- the Hanford Waste Board, a 20-member board created by the 1987 Legislature that addresses clean-up issues at the nuclear site and represents Oregon's interest in issues involving Hanford, with a focus on protecting the Columbia River and ensuring safe transportation routes for shipments of radioactive waste.

OOE – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,425,000	900,000	867,872	0
Other Funds	11,245,202	14,785,812	15,227,667	16,979,264
Federal Funds	4,897,050	7,043,665	7,139,629	7,495,674
Total	**17,567,252**	**22,729,477**	**23,235,168**	**24,474,938**
FTE	77.55	77.94	77.94	82.77

Program Description

The Operations program has the following primary activities:

- promoting conservation and renewable resources through programs such as the Business Energy Tax Credit, the Residential Energy Tax Credit, State Home Oil Weatherization audits and loans, Northwest Energy Efficient Manufactured Housing certification, telecommuting, energy efficiency projects in new state buildings, and alternative fuels use;
- siting new energy facilities that are safe and environmentally acceptable;
- providing information to individuals, businesses, and other energy users on the development of new, cost-effective and environmentally sound energy resources and technologies; and
- overseeing the cleanup and transportation of radioactive wastes as well as ensuring emergency preparedness in the event of an accident involving radioactive materials.

Program activities also include energy research and analysis. In addition, the budget contains the salaries and other personnel expenses for the two Oregon members of the Pacific Northwest Electric Power and Conservation Planning Council. The Council was authorized by Congress in 1990 and operates under an interstate compact signed by Washington, Oregon, Idaho, and Montana. It is responsible for long-range power planning and for developing programs to preserve and restore fish and wildlife species affected by Columbia River Basin hydroelectric facilities.

Revenue Sources and Relationships

The OOE has numerous sources of Other Funds revenues. The main source is energy supplier assessments (28%). ORS 469.421(8) provides for an assessment of up to one-half of one percent of the supplier's gross operating revenue derived in Oregon, but the actual assessment has ranged from 0.043% to 0.061% over the last ten years. Other revenue sources include Northwest Energy Efficiency Alliance funds for energy efficiency programs (12%) and fees to cover the costs of programs such as facility siting and review (13%), SB 1149 school audits and technical assistance (11%), manufactured home certification (7%), the Business Energy Tax Credit (8%), the State Home Oil Weatherization program (6%), and numerous miscellaneous programs (15%).

Federal revenues include funds from the U.S. Department of Energy, which are projected to increase to $7.2 million in 2003-05 from $4.4 million in 2001-03. The increase is primarily from funds for oversight of the hazardous waste cleanup of the Hanford nuclear site (a $900,000 increase) and from the National Industrial Competitiveness through Energy, Environment, and Economics Program for demonstration projects involving energy efficient and clean production manufacturing and industrial technologies (a $1.6 million increase).

In the last three biennia, the OOE has received General Fund to support the Oregon Museum of Science and Industry (OMSI). In 1992, the Small-Scale Energy Loan Program loaned $15.5 million to OMSI for energy-saving features in its new museum and for a portion of the construction costs. From the beginning, repayment of the 30-year loan has been problematic, first due to construction overruns, then by damage caused by the February 1996 flood, and recently by the economic downturn that has affected charitable donations. Because of OMSI's financial difficulties in meeting the debt payments, the 1997 and 1999 Legislatures appropriated $1.5 million and $1.425 million, respectively, to the OOE to cover OMSI's loan payments. The 2001 Legislature provided $900,000 General Fund but reduced this to $867,872 during the 2002 special legislative sessions to rebalance the statewide General Fund budget.

Budget Environment

Oregon's continued population growth has directly created a greater demand for energy sources. This demand requires the construction of more power plants and other energy facilities. As a result, the OOE expects workload related to energy facility applications will continue to increase. The 2001 Legislature's passage of HB 3788, which provides an expedited siting review process for certain gas-fired power plants and a temporary-site-certificate process for energy generation facilities meeting certain criteria, contributes to this workload growth as well.

In addition, Oregon's electric industry restructuring legislation has increased the agency's workload. SB 1149 (1999) provided that a public purpose charge be collected beginning in October 2001 from certain retail electricity customers in the service areas of Portland General Electric and Pacific Power for, in part, support of cost-effective conservation activities and new renewable energy resources. Increases in and uncertainty about energy costs prompted the 2001 Legislature to pass HB 3633, which postponed the implementation of restructuring but only until March 1, 2002. Ten percent of the public purpose funds go to schools in the affected service areas for energy conservation investments. These funds are to be used for energy audits, improvements, energy conservation education, and renewable resources. The OOE is responsible for quality control of the audits, program oversight, and technical assistance. The OOE also is responsible for providing assistance to businesses that opt to invest in conservation activities and renewable resources in lieu of paying the public purpose charge.

Workload also has increased as state and local governments under severe budget constraints look toward conservation and renewable resources to reduce energy use and thus limit expenditures and as businesses and individuals seek out ways to control their rising energy costs.

A major focus of the OOE is the cleanup of radioactive waste at the Hanford site situated in southeast Washington, only 35 miles from Oregon's border and directly threatening the Columbia River. Of the 177 underground tanks storing 54 million gallons of radioactive liquid wastes, 67 have leaked thus far. These tanks never were intended for long-term storage. During 2001-03, the U.S. Department of Energy began construction of facilities to encase the wastes in glass. This clean-up is a long-term project estimated to take about 25 years. The OOE is committed to ensuring the project stays on schedule. The waste in Hanford's underground tanks presents the most urgent, complex challenge for the agency.

Governor's Budget

The Governor's budget is a 7.7% increase over the 2001-03 legislatively adopted budget and a 5.3% increase over the 2001-03 legislatively approved level. A policy package adds $829,202 Other Funds expenditure limitation and would continue positions that were administratively established by the agency during the 2001-03 biennium to address workload related to facility siting, implementation of SB 1149, and other conservation and renewable resource programs. Positions in the package are as follows:

- a permanent Office Specialist 2 position (1.0 FTE) to address workload increases in the Residential Energy Tax Credit program;
- a limited duration Office Specialist 2 position (1.0 FTE) to maintain the agency's website and to handle an increase in the number of inquiries due to the current energy environment and rising energy costs;
- a permanent Accounting Technician 3 position (1.0 FTE) to address the accounting and tracking requirements of SB 1149;
- a limited duration Program Technician 2 position (1.0 FTE) to provide technical assistance to public schools as part of SB 1149 activities;
- a permanent Program Technician 2 position (1.0 FTE) to work on energy facility siting projects; and
- a limited duration Program Technician 1 position (1.0 FTE) to handle temporary workload in the Conservation Division related to energy efficient building and school design, building codes, and public guidelines.

The budget also increases an existing Compliance Specialist 3 position by 0.25 FTE to handle workload related to energy facility siting issues such as technical reviews of proposals and coordination of the application process.

Because of the state's General Fund constraints, the budget does not continue funding to cover loan payments due from OMSI. It is likely that OMSI will continue to have difficulty making the annual payments (estimated at $1.14 million) without state support or an increase in its operating revenues.

OOE – Loan Programs (Nonlimited)

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	112,765,266	142,638,525	142,638,525	152,439,524
FTE	0.00	0.00	0.00	0.00

Program Description

The OOE offers low-interest, long-term loans to individuals, businesses, non-profit organizations, tribes, schools, and state and local governments for conservation and renewable resource projects through its Small-Scale Energy Loan Program (SELP). This program was established by a statewide vote in 1980. It funds projects such as energy-efficient heating and lighting systems, weatherization measures, and energy-efficient improvements in manufacturing processes. The program also encourages innovative projects that are energy efficient and environmentally sound. Sales of state general obligation bonds fund the loans. SELP only makes loans that are fully secured.

Revenue Sources and Relationships

Revenue sources include bond proceeds, loan repayments, and interest income.

Budget Environment

SELP is self-supporting and uses no tax dollars. Borrowers pay back the loans, including program costs. Loan payments for most borrowers are covered by energy savings generated by their conservation and renewable resource investments. As of year-end 2001, SELP has made 548 energy loans for projects that, according to the OOE, save (through conservation loans) or produce (through renewable resource loans) enough energy to heat more than 110,000 homes per year.

Governor's Budget

The Governor's budget provides for a higher level of expenditures compared to 2001-03, based on projected levels of program activity.

Department of Environmental Quality (DEQ) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	38,688,564	42,872,836	37,626,545	33,175,693
Lottery Funds	456,155	497,510	2,238,957	1,789,995
Other Funds	100,316,829	110,212,596	113,547,199	115,978,166
Federal Funds	25,940,544	34,443,109	38,488,520	38,761,389
Nonlimited	136,917,601	116,169,773	117,169,773	84,184,325
Total	**302,319,693**	**304,195,824**	**309,070,994**	**273,889,568**
FTE	783.55	865.71	835.59	821.19

The Department of Environmental Quality (DEQ), with policy direction from the five-member Environmental Quality Commission, administers the state's laws regulating air, water, and land pollution. The Department establishes the standards for clean air, water, and land; determines whether or not these standards are being met; and then takes action to ensure that the standards are met. The agency is attempting to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management. DEQ headquarters are in Portland with regional administrative offices in Bend, Eugene, and Portland. The agency also maintains field offices in Baker City, Coos Bay, Grants Pass, Hermiston, Klamath Falls, Medford, Pendleton, Roseburg, Salem, The Dalles, and North Coast. The Department manages a pollution control laboratory on the Portland State University campus.

Governor's Budget

The Governor's budget for the Department of $273.9 million total funds represents a 10% decrease from the 2001-03 legislatively approved budget. The operating portion of the budget includes $33.2 million General Fund, $1.8 million Lottery Funds, $116 million Other Funds, and $38.8 million Federal Funds. The operating budget total of $189.7 million represents a 1.1% decrease from the 2001-03 legislatively approved budget. The operating budget total does not include $84.2 million in Nonlimited Other Funds expenditures related to bond proceeds used in various environmental cleanup programs, the state's revolving loan fund for wastewater facility development, and loans to local governments. The $84.2 million in Nonlimited Other Funds expenditures represents a 28.2% decrease from the 2001-03 legislatively approved budget and is the single greatest factor in the Governor's 2003-05 budget being 10% lower than 2001-03 legislatively approved levels. The General Fund portion of the budget is 22.6% less than the 2001-03 legislatively adopted budget. The recommended budget eliminates a total of 14.4 FTE from the 2001-03 legislatively approved budget, with most of this reduction being taken in the Water Quality Division.

DEQ – Air Quality Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,942,771	5,168,182	4,189,288	4,603,139
Other Funds	28,038,051	33,029,329	34,194,981	35,963,550
Federal Funds	4,980,189	6,390,023	6,660,858	6,639,904
Total	**38,961,011**	**44,587,534**	**45,045,127**	**47,206,593**
FTE	215.75	291.83	283.51	277.96

Program Description

The Air Quality program is responsible for compliance with federal and state air quality standards. The program monitors air quality to protect the public health through the development and implementation of pollution reduction strategies. Federal ambient air quality standards for six criteria pollutants must be maintained (sulfur dioxide, lead, nitrogen dioxide, ozone, carbon monoxide, and respirable particulate matter). The primary sources of air pollution in Oregon are motor vehicles, forest slash burning, woodstoves, industrial facilities, field burning, and area sources. Program clients include the regulated community (primarily industries, businesses and local governments) and the general public that benefits from clean air. 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 Air Contaminant Discharge Permit program (ACDP) issues permits for approximately 1,100 minor industrial emission sources. The Title V Operating Permit program issues permits for about 135 major industrial emission sources.

The Air Quality Program includes headquarters, laboratory functions, regional operations, and a local air pollution control agency. Headquarters is responsible for program planning and development, rules and guidance development, data analysis and reporting, technical services, and the vehicle inspection program. The vehicle inspection program requires tests of vehicles operating in the Portland and Medford areas as part of the vehicle license renewal process. The laboratory provides air quality sampling, monitoring, and analytical support services. Air Quality staff in regional offices are responsible for ensuring that industrial sources of air pollution are operating in compliance with rules and permit conditions. Regional staff are also responsible for certification of asbestos removal, regulating open burning, monitoring field burning, and responding to public complaints. The Lane Regional Air Pollution Authority operates the air pollution control program in Lane County and receives a share of state funding. Of the Division's 275 FTE in the 2001-03 biennium, 48 were located in headquarters, 51 in regions, 32 in the laboratory, and 144 in the vehicle inspection program.

Revenue Sources and Relationships

The federally delegated clean air program is primarily financed with permit and emission fees (such as the Air Contaminant Discharge Permit fee) supplemented by a General Fund appropriation and Federal Clean Air Act funds. Federal law requires that the cost of the permit program for major industrial sources be fully paid from emission fees (Title V Permit Fee). The 2001 Legislature approved a 30% fee increase in the Air Contaminant Discharge Permit (ACDP) program. Other non-General Fund sources include fees for asbestos certification and inspection, field burning permits, and vehicle inspection. The Vehicle Inspection Program is entirely supported by a $21 fee for certificates of vehicle emissions compliance, required as part of the vehicle registration process. Federal maintenance of effort requirements apply to all air quality programs that contribute to maintenance of air quality standards. Federal Clean Air Act program grants under Section 105 for air pollution planning and control require a state match (both General Fund and fees) greater than the previous year's expenditures.

Budget Environment

The Clean Air Act requires compliance with federal air quality standards and prevention of air quality deterioration in areas that exceed federal standards. Eight areas in Oregon have exceeded air quality standards in the past and have officially been declared nonattainment areas by the U. S. Environmental Protection Agency (Salem, Eugene-Springfield Air Quality Maintenance Area, Klamath Falls, Medford, Grants Pass, La Grande, Oakridge, and Lakeview). Each of these has failed to meet one or more of three criteria pollutants -- ozone, carbon monoxide, and particulate matter. The Portland Air Quality Maintenance Area was redesignated by EPA as being in attainment with standards after previously being considered a nonattainment area. 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.

The agency expects additional work due to activities related to the new air standards for particulate matter (PM2.5) and ozone. The Clean Air Act also requires regulation of toxic air pollutants. A recently completed national study of air toxics by EPA found 16 toxic air pollutants that exceeded levels of concern, some by more than 10 times. During the interim the agency worked with advisory committees to develop an Oregon air toxics program. The program will begin by improving monitoring, computer modeling, analysis of air toxics, and build upon the findings of EPA's national study.

The Division's 2001-03 budget was reduced by $1.1 million General Fund based on special session actions during the interim. The Division received an additional $115,670 General Fund for partial funding of employee salary and benefit increases, $40,230 less than needed to fully fund those increases. To manage the reductions, the agency reduced air quality sampling, planning, and assessment as well as the Green Permits and Open Burning programs.

Governor's Budget

The Air Quality Division's recommended budget of $47.2 million is a 4.8% increase over the 2001-03 legislatively approved budget. The recommended General Fund appropriation of $4.6 million is up 9.9% from the 2001-03 legislatively approved budget. This increase is largely due to inflation, computed salary changes, and a rent increase for the DEQ laboratory. The proposed budget continues positions in the ACDP program funded by a fee increase approved in the 2001-03 legislatively adopted budget and implemented during interim. The recommended budget continues this increases contingent on legislative ratification. With implementation of this fee increase, the ACDP program will be 85% funded with permit fees. The recommended budget also includes an increase of $1.3 million Federal Funds related to continuation of the PM 2.5 monitoring network.

The Governor's recommendation for the Air Quality Division's budget includes the following changes:

- $818,808 General Fund is reduced to continue HB 5100 budget reductions that reduced air quality monitoring, information system functions, opacity readings, central rules, and eliminated a Green Permits coordinator.
- $328,646 General Fund is increased to cover a lease rate and space increase for the Department's laboratory space at Portland State University. The laboratory has been located at Portland State University since 1975. The current lease expires 6/30/03. The Department has determined that the current laboratory is no longer able to meet its needs and plans the construction of a new facility where they would co-locate with the Public Health laboratory. The University has agreed to a short-term lease extension, at a significantly increased rate, while the new facility is constructed. Expenditures related to construction of a new laboratory is contained in the Governor's budget for the Department of Administrative Services.
- $1,033,424 Other Funds are restored to continue a 30% overall fee increase in the ACDP program approved by the 2001 Legislature. Revenue from the fee increase continues 5.65 FTE in the ACDP program. The positions include Environmental Engineers, Natural Resource Specialists, and an Office Specialist. Continuation of these positions would ensure an effective industrial permitting program, maintain compliance and enforcement efforts, and avoid federal sanctions.
- $636,404 Other Funds are included in the Vehicle Inspection Program to continue 50 limited duration positions (50.0 FTE) and convert 20 positions (20.0 FTE) to permanent status as it is anticipated these positions will be needed for more than 3 biennia. The total number of inspectors for the program would decline by 5 as newer cars, which require a less time intensive inspection, continue to replace older vehicles. All 70 positions would be funded by existing Vehicle Inspection fees.
- $204,080 Other Funds expenditures are restored pending ratification of a new fee for on-site automobile dealer emissions testing approved in the 2001-03 LAB and implemented during the interim. This fee must be ratified by the 2003 Legislature before becoming permanent.
- $1,261,636 Federal Funds to continue field and laboratory operation and maintenance of the EPA required monitoring network for fine particulate matter (PM 2.5). Eight limited duration positions were approved with federal funding in the 1999-01 biennium. Four of these positions were made permanent in 2001-03 with the 4 other positions being continued as limited duration. The Governor's budget makes the remaining 4 positions permanent. These positions would ensure that Oregon would continue to meet federal requirements on the collection and reporting of fine particulate matter. The budget also adds four additional limited-duration positions (3.5 FTE) funded by a shift in federal funding from competitive awards to the air quality base grant. This was done with the understanding that these funds would not be used to replace base program work. As such, these positions would continue the types of work currently being done through competitive grant award funding including toxicology work and community outreach.

DEQ – Water Quality Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	17,694,558	20,102,255	17,058,773	17,827,688
Lottery Funds	354,970	192,000	2,238,957	0
Other Funds	13,730,168	14,715,457	15,314,533	15,767,822
Federal Funds	11,840,283	12,481,551	15,808,074	14,796,806
Total	**43,619,979**	**47,491,263**	**50,420,337**	**48,392,316**
FTE	228.85	235.28	214.45	213.28

Program Description

The Water Quality program's goal is for the state's water bodies to meet water quality standards and support beneficial uses of water such as fishing, swimming, irrigating, and drinking and to sustain healthy communities of fish, plants, and other aquatic life. To attain this goal, the Water Quality program has set measurable objectives to characterize water quality trends in groundwater and surface water, to initiate protective actions in known, clean water bodies, and to reduce pollutant levels in water bodies with limited water quality.

The Water Quality program's primary functions are setting and monitoring water quality standards and assessments, controlling wastewater through permits and certifications, providing financial and technical assistance, implementation of 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. Approximately 2,600 water quality permits are enforced in Oregon under the NPDES program with an additional 1,450 WPCF permits and 700 Confined Animal Feeding Operation permits subject to agency review and enforcement.

Other Water Quality program initiatives include the Environmental Partnership for Oregon Communities (EPOC), Groundwater Management Areas, and the Use Attainability Analysis project. The Water Quality program also operates the nonpoint source pollution program in Oregon. Section 319 of the Clean Water Act requires states to have nonpoint source management programs to address the protection and restoration of surface water and groundwater. The Water Quality program also manages a wastewater financial assistance program for municipalities and conducts Section 401 certifications of dredge and fill work and hydroelectric projects.

In order to maintain these programs, the Division's positions are distributed between headquarters, the regions, and the laboratory. In the 2001-03 biennium, 68 of the Division's 234 FTE were located in headquarters, 127 FTE were in regional offices, and 39 FTE were assigned to the laboratory.

Revenue Sources and Relationships

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. Determining the amount of the program's costs that should be paid from fee sources has been an ongoing debate. The Water Quality program has struggled over the past several biennia to achieve fee increases necessary to maintain these programs as General Fund support has diminished and Federal Funds have failed to keep pace with inflationary increases in program costs. The 1999 Legislature provided $0.9 million General Fund as a one-time infusion to maintain services in the permitting program without a fee increase. The 2001 Legislature approved a 20% fee increase in the wastewater permitting program. The combination of a fund shift from the Land Quality Division and the additional fee revenue from the fee increase restored funding to a level necessary to maintain permitting workload. The 1999 Legislature also provided an additional $0.8 million General Fund for the first phase of the expedited development of Total Maximum Daily Loads (TMDLs) in the Willamette Basin. The TMDLs in the basin were to be completed by the end of 2003. Funding for prioritized development of Willamette Basin TMDLs was continued by the 2001 Legislature.

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.

Budget Environment

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. The Department of Environmental Quality must operate programs to carry out the mandatory requirements of the Clean Water Act that are acceptable to the U. S. Environmental Protection Agency (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 fall of 1998, EPA approved the Department's latest draft 303(d) list that included over 1,000 rivers, streams, lakes, and estuaries covering more than 13,000 miles. The list of streams, referred to as the "303(d) list" because of the requirements of section 303(d) of the federal Clean Water Act, must be submitted to EPA by April 1st of each even-numbered year. The list will be updated by the end of 2002 (states were excused by EPA from submitting new drafts in 2000). The most controversial aspect of the list is the number of water bodies included due only to violation of temperature standards. Once a water body is included on the 303(d) list, the Clean Water Act requires that the state develop a plan to meet water quality standards. The plan is referred to as a Total Maximum Daily Load (TMDL) and is used to describe the maximum amount of pollutants from point sources and surface runoffs, which can enter the water body without violating water quality standards. Much of the recent workload of the Water Quality program has been directed toward the development of TMDL's for Oregon's watersheds. A TMDL is implemented through a combination of changes to industrial and municipal discharge permits and the development of water quality management plans. On agricultural lands, the Department of Agriculture, using the SB 1010 process, is responsible for the plan development. On forestlands, the Department of Forestry is responsible for the development of the water quality management plans. The Department is under court consent order to complete all TMDL's by the end of 2007.

The Division's 2001-03 budget was reduced by $1.6 million General Fund based on special session actions during the interim. The Division received an additional $432,286 General Fund for partial funding of employee salary and benefit increases, $150,350 less than needed to fully fund those increases. To manage the reductions, the agency held positions vacant, eliminated support for a non-point source coordinator, reduced water quality monitoring and assessment, reduced development of TMDL's, and eliminated positions in the wastewater permitting program. These reductions result in 2003-05 savings of $4 million General Fund.

Governor's Budget

The Governor's budget of $48.4 million is 4% below the 2001-03 legislatively approved budget. The Governor's proposed budget includes $17.8 million General and Lottery Funds, a decrease of 7.6% from the 2001-03 legislatively approved budget and 12.2% from the legislatively adopted levels. The recommended budget includes $15.8 million Other Funds and $14.8 million Federal Funds, comprising 33% and 31% of the total budget respectively. The budget includes continuation of fee increases in the wastewater permitting program ($986,989 Other Funds) and the Operator Certification program ($156,769 Other Funds) approved by the 2001 legislature and implemented through administrative rule.

The Governor's recommendation for the Water Quality Division budget includes the following changes:

- $3,365,104 General Fund is reduced to continue HB 5100 budget reductions that eliminate the portion of a Cross-Program and Green Permits Coordinator position funded in the Water Division, a Use Attainability Analysis position, a senior scientist position, water quality monitoring positions, TMDL development positions, biomonitoring positions, wastewater permitting positions, as well as reductions in data management and administration. A total of 16 positions (16.25 FTE) are eliminated as a result of these actions.
- $101,280 General Fund and $198,720 Lottery Funds are reduced to reflect the transfer of funding for the Lower Columbia River Estuary Project from DEQ to the Oregon Watershed Enhancement Board. This funding represents the state's share of match required to receive federal funding for habit restoration and education efforts in the Lower Columbia River region. Washington State also provides match for this effort, which was initiated in 1995.
- $387,071 General Fund is added to continue 8 positions (2.0 FTE) approved in 1999-01 as part of a 4-year effort to expedite completion of TMDLs for 9 of 12 sub-basins in the Willamette Watershed. This work is to be completed by the end of 2003.
- $392,111 General Fund is increased to cover a lease rate and space increase for the Department's laboratory space at Portland State University. The laboratory has been located at Portland State University since 1975. The current lease expires on June 30, 2003. The Department has determined that the current laboratory is no longer able to meet its needs and plans the construction of a new facility where they would co-locate with the Public Health laboratory. The University has agreed to a short-term lease extension, at a significantly increased rate, while the new facility is constructed. Expenditures related to construction of a new laboratory is contained in the Governor's budget for the Department of Administrative Services.
- $843,441 Other Funds continues implementation of the Drinking Water Protection/Source Water Assessment effort included in the 1996 Safe Drinking Water Act. Five limited duration positions (5.0 FTE)

are continued with Federal Funds from EPA through Health Services within the Department of Human Services.

- $162,176 Other Funds to establish a Program Coordinator position for the Clean Water State Revolving Loan Fund (CWSRF). This position would ensure effective administration of the CWSRF, which provides loans to municipalities for water pollution abatement projects at below market interest rates. The position would be funded with the administrative allowance from the federal capitalization grants which match state contributions to the CWSRF at a 5:1 match rate.
- $376,999 Other Funds to continue implementation of new federal NPDES Storm Water Phase 2 requirements. The funding continues 3 (2.5 FTE) limited-duration positions. The Other Funds come from additional fee revenue generated by having more activities requiring storm water permitting under the new federal requirements.
- $1,063,067 Federal Funds to make permanent 6 positions (6.0 FTE) established by the 2001 Legislature to assist with the implementation of completed TMDLs. These positions are assigned to regional offices.
- $941,220 Federal Funds to continue the La Pine National Decentralized Wastewater Treatment Project. The federal funding from EPA continues 6 limited duration positions (5.50 FTE) working on an onsite sewage disposal and treatment project with the Deschutes County Health Division, the U.S. Geological Survey, and other agencies.

DEQ – Land Quality Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,419,964	2,087,036	1,557,506	1,715,595
Lottery Funds	101,185	0	0	0
Other Funds	41,580,452	44,333,627	45,475,123	43,546,283
Federal Funds	8,665,456	15,142,217	15,356,211	16,532,689
Total	**53,767,057**	**61,562,880**	**62,388,840**	**61,794,567**
FTE	248.97	249.04	247.15	244.02

Program Description

The Land Quality program's goal is to protect human health and the environment by preventing and reducing waste generation, assuring that waste generated is properly managed, reducing and preventing pollution, 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. Other federal programs include underground storage tank cleanup and superfund site cleanups. In addition, the Land Quality program operates various state programs, including waste reduction and recycling, hazardous waste generator reporting and technical assistance, oil spill response planning, hazardous materials spill response, voluntary cleanup, toxic materials cleanup, and policy and program development.

Land Quality programs are implemented by regional office staff. Regional staff conduct inspections, issue permits, provide cleanup oversight, and offer technical assistance. Headquarters staff in the Land Quality program provide centralized functions such as hazardous waste facility data collection, Underground Storage Tank (UST) facility registration, orphan site cleanup management, rule and policy development, billing and financial operations, and federal grant and contract administration. In the 2001-03 biennium, 85 of the Division's 245 FTE were located in headquarters, 151 FTE were in regional offices, and approximately 9 FTE were in the laboratory.

Revenue Sources and Relationships

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. Facilities receiving solid waste for disposal must have a permit and are charged a fee for the permit. The amount of the permit fee varies by the type of facility and the volume of waste disposed.

The state also operates the federally delegated hazardous waste management program. General Fund and permit fees provide the 25% match required for receipt of federal funds. Maintenance of an EPA approved program is a condition of program delegation. State hazardous waste management and cleanup programs, including that portion of costs not funded through cost recovery, are financed in part through hazardous waste disposal fees. Through the first year of the 2001-03 biennium, revenue from the disposal of hazardous waste was down 35% from the level assumed in the program's budget. Revenue from other sources including Hazardous Waste Generator fees and Marine Oil Spill Prevention fess are also expected to be lower than assumed in the agency's 2001-03 budget. This trend of declining fee and permit revenue makes continuation of the hazardous waste program at the current level of existing services unsupportable without additional revenue.

Budget Environment

Funding of the Orphan Site program continues to be unresolved. Orphan sites are contaminated sites where the owner is either unknown, unable, or unwilling to pay for cleanup costs. The 1989 Legislature authorized the sale of orphan site bonds to provide funding for state-sponsored cleanup of industrial hazardous orphan sites. Repayment of the bonds was to be financed through a petroleum load fee and revenue from the hazardous substance fee. General Fund and lottery funds were also used to partially support debt service requirements of the orphan site bonds. In 1993, the Attorney General advised that the petroleum load fee should not be used for orphan site debt service. In 1995, the Legislature limited collection of the hazardous substance fee to an amount necessary to service debt from previous bond sales only. Due to a lack of funding alternatives outside of additional General Fund commitments, the 1997 Legislature made no change to this funding arrangement. The 1999 Legislature shifted all Lottery funded debt service to the General Fund, but did not directly address the long-term funding strategy for industrial orphan site cleanup. General Fund support of debt service was continued by the 2001 Legislature.

The Division's 2001-03 budget was reduced by $594,402 million General Fund based on special session actions during the interim. The Division received an additional $51,037 General Fund for partial funding of employee salary and benefit increases, $17,751 less than needed to full fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, suspend development of a hazardous waste information system. Permanent reductions included eliminating funding for a green permits coordinator and reducing support of cleanup and spill response. These reductions result in 2003-05 savings of $0.6 million General Fund.

Governor's Budget

The Governor's budget for the Land Quality Division is $61.8 million, a 1% decrease from the 2001-03 legislatively approved level. There are 244.02 FTE in the Governor's budget, which is a decrease of 3.13 FTE from the 2001-03 legislatively approved budget. The recommended budget includes proposed fee increases to support program activities in the Hazardous Waste program, which saw a significant reduction in revenue during the 2001-03 biennium. Failure to replace lost revenue will reduce the Hazardous Waste program's ability to provide technical assistance, inspections, compliance, and analysis. The Governor's budget does not include any bond sale proceeds in the Land Quality Division to continue cleanup work on high priority industrial orphan sites.

The Governor's recommendation for the Land Quality Division budget includes the following changes:

- $321,642 General Fund reduction to continue 2002 special session budget reductions that eliminate the portion of a Cross-Program and Green Permits Coordinator position funded in the Land Quality Division, reduce the cleanup and spills program and suspends development support for the Oregon Hazardous Waste Information Management Exchange (OHWIME) information system.
- $99,015 General Fund is increased to cover a lease rate and space increase for the Department's laboratory space at Portland State University. The laboratory has been located at Portland State University since 1975. The current lease expires June 30, 2003. The Department has determined that the current laboratory is no longer able to meet its needs and plans the construction of a new facility where they would co-locate with the Public Health laboratory. The University has agreed to a short-term lease extension, at a significantly increased rate, while the new facility is constructed. Expenditures related to construction of a new laboratory is contained in the Governor's budget for the Department of Administrative Services.

- $1,556,621 Other Funds, with about one-third from a proposed increase in Hazardous Waste Generator fees and two-thirds from a one time change in the timing of fee billings to accelerate funding into 2003-05, to support 8.37 FTE in the Hazardous Waste Management program. This funding would allow the Department to continue EPA required work on hazardous waste generation and disposal, as well as maintain the Toxic Use Reduction and Hazardous Waste Assistance Program which works with businesses to reduce chemical use and hazardous waste generation. These activities were funded with revenue from hazardous waste treatment, storage and disposal fees, however due to reductions in revenue from these fees current program activities are not supportable.
- $203,505 Federal Funds to add 2 limited-duration positions, an inspector and an administrative law specialist, to oversee the destruction of chemical weapons stored at the US Army's Umatilla Chemical Depot. The EPA has delegated to DEQ the authority to oversee all permitting and environmental activities at the Umatilla Chemical Depot. Funding for these limited-duration positions would come from the US Department of Defense.

DEQ – Cross Media

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	164,660	867,855	852,222	92,559
Other Funds	586,399	541,582	798,974	704,662
Federal Funds	454,616	429,318	663,377	791,990
Total	**1,205,675**	**1,838,755**	**2,314,573**	**1,589,211**
FTE	12.42	5.00	6.17	3.65

Program Description

The Cross Media program was established within the agency's structure in 1999 to highlight the needs of addressing environmental issues that cross the agency's traditional program lines. The operations of the new section were formerly included within Agency Management. The separate section approach will enable these efforts across a broader spectrum of the agency's responsibilities to be distinguished from general management and centralized services. The Cross Media program manages the pollution control tax credit program, technical assitance to small businesses to reduce waste, and participation in Community Solutions Teams. Community Solutions Teams are designed to streamline the delivery of state services which cross agency lines to local communities through the coordination of effort.

Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program for support of the Community Solutions Team, and Other Funds from pollution control tax credit fees provided for agency work associated with certification of tax credit applications. Federal Funds for Cross Media activities are from Environmental Protection Agency pollution prevention grants.

Budget Environment

The Division's 2001-03 budget was reduced by $41,210 General Fund based on special session actions during the interim. To manage the reduction, the agency reduced work related to the Community Solutions Team. The 2001 Legislature provided three limited duration positions to continue agency work with Community Solutions Teams; therefore positions will need to be reauthorized for this work to continue.

Governor's Budget

The Governor's recommended budget for the Cross Media Program of $1.6 million is 31.3% below the 2001-03 legislatively approved budget. This decline was caused by not reauthorizing limited-duration General Fund positions established in 2001-03 for the agency's participation in Community Solutions Teams. The Governor's budget also added $124,842 Other Funds for an additional position in the Pollution Tax Credit program to address the increasing number of tax creadit applications for installation or upgrades of pollution control devices. Tax credit application fees entirely support this program. In addition, the budget includes $362,672 Federal Funds to continue 3 limited-duration postions working to improve data reporting to the Environmental Protection Agency through implementation of a nation-wide data sharing network.

DEQ – Agency Management

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	287,149	247,563	238,618	227,587
Other Funds	16,381,759	17,592,601	17,763,588	19,995,849
Total	**16,668,908**	**17,840,164**	**18,002,206**	**20,223,436**
FTE	77.56	84.56	84.31	82.28

Program Description

The Agency Management program provides leadership, coordination, and support for the Department and staff assistance for the Environmental Quality Commission. Agency Management includes the Office of the Director, the Public Affairs Office, the Interprogram Coordinator, and the Management Services Division. Management Services consists of the Accounting, Budget and Administration, Human Resources, Information Systems, Business Systems Development, and Health and Safety sections.

Revenue Sources and Relationships

Agency Management is financed primarily from indirect cost revenues. The indirect rate is calculated as a percentage of personal services. In previous biennia, the indirect rate was applied to personal services from Other Funds and Federal Funds sources. Agency Management received a direct General Fund appropriation to account for the remaining approved central service expenditures. Beginning with the 1999-01 biennium, the indirect collection methodology was changed to include all funding types, including the General Fund. The budgeted indirect rate is set to provide sufficient revenue to fund Agency Management’s current service level budget. The actual rate will be negotiated with the Environmental Protection Agency once the agency’s total budget is established. The change in methodology was necessary in order to meet the conditions of the agency’s agreement with EPA on charging the indirect rate against federal revenues. One budgetary effect of this procedure is a double counting of the indirect charged against General Fund positions. The budget first counts the General Fund appropriation to each program for personal services and then counts the indirect rate of that General Fund amount as Other Funds expenditure limitation in the Agency Management program. The General Fund remaining in the Division’s budget is used to pay for central government service charges that cannot be assessed against Federal Funds through the indirect charge applied against all programs.

Budget Environment

During the 2001-03 biennium, the Division used additional positions approved by the 2001 Legislature to support agency development and implantation of a time-accounting system that will enable the agency to provide additional information on accountability and program efficiency. Positions were also added to improve information systems infrastructure, including database integration between agency programs and increasing data access via the internet. The Division’s 2001-03 budget was reduced $323,443 Other Funds as part of a one-time reduction taken during the 2002 second special session.

Governor’s Budget

The Governor’s recommended budget for Agency Management is $20.2 million, an increase of 18.9% from the 2001-03 legislatively approved budget. This increase is largely due to inflation, computed salary changes, and the reversal of a temporary reduction to Agency Management made during the 2002 2nd special session. The recommended budget includes a decrease of 2 FTE from the 2001-03 legislatively approved levels caused by reduced funding for agency programs, which in turn reduces the amount transferred to Agency Management through the indirect rate charged against all agency programs. The Governor’s budget adds a Facilities Coordinator position ($70,828 Other Funds, 0.50 FTE) to oversee agency leases and the transition to a new laboratory. The Governor’s budget also continued a General Fund reduction to central government services charges taken during the 2002 fifth special session by moving these expenditures to Other Funds funded through the indirect charge. This change is problematic because central government service charges cannot be assessed against federal funds through the indirect charge.

DEQ – Pollution Control Bond Fund Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	11,179,462	14,399,945	13,730,138	8,709,125
Lottery Funds	0	305,510	0	1,789,995

Nonlimited	10,482,900	1,904,938	2,904,938	2,134,438
Total	**21,662,362**	**16,610,393**	**16,635,076**	**12,633,558**
FTE	0.00	0.00	0.00	0.00

Program Description

The sale of pollution control bonds is used by the Department to finance the Clean Water State Revolving Fund, the Sewer Assessment Deferral Loan program, and the Orphan Site program. Bond proceeds are used to finance municipal waste water facility construction and other water pollution reduction projects, an assessment deferral program for low income households, and cleanup of hazardous waste sites where the responsible party is either unknown, unwilling, or unable to pay for cleanup costs. Bond proceeds also provide the 20% state match for federal capitalization funding.

Revenue Sources and Relationships

Debt service for the waste water program was initially paid from the General Fund, but in 1993-95 was shifted to Lottery Funds. Lottery Funds have also been used to pay for a portion of the Orphan Site Bond debt service. The 1999 Legislature removed all Lottery Funds out of the debt service payment and shifted the amount to General Fund. The action was taken to provide additional Lottery Funds for economic development activities and to more easily identify Measure 66 Lottery Fund allocations in the agency's budget.

For the Orphan Site program, excluding solid waste sites, the Legislature initially provided that debt service would be financed in equal shares from the hazardous substance possession fee and the petroleum load fee. Following a 1993 court ruling on petroleum assessments, the Attorney General advised that the load fee no longer could be used for this purpose. The Legislature substituted temporary funding and directed a Joint Legislative Task Force to find a permanent funding source. The task proved difficult, and no alternative was recommended. Additional attempts to produce a permanent funding structure have met with similar results. The failure to adopt any permanent funding mechanism has meant the continued use of a combination of state General Fund and Lottery Fund support and revenue from the Hazardous Substance Possession fee.

Budget Environment

Communities with exceptional pollution control problems are able to receive grants under the Department's bond programs. The grants and interest costs are supported out of the sinking fund as debt service obligations are met. The 2001 Legislature allowed for bond sales of $9.1 million in the State Revolving Fund and $4 million for orphan site environmental cleanup. The agency responded to the state-wide revenue shortfall by delaying these bond sales and $1 million of the resulting debt service savings were used during 2002 special sessions to address the state-wide budget shortfall.

Governor's Budget

The Governor's recommended budget funds debt service on previously issued bonds for the Orphan Site and Clean Water State Revolving Loan Fund programs. The Clean Water State Revolving Loan Fund (CWSRF) program included a different mechanism to fund debt service. General Fund debt service on CWSRF bonds was reduced $2.1 million and replaced with Other Funds from interest paid on past loans from the Fund. Ordinarily this interest is deposited back into the CWSRF and used to make additional loans. Debt service on 2003-05 bonds for the CWSRF ($229,500) will also be paid using past interest payments. No bond sale was included in the Governor's budget for the Industrial Orphan Site program.

DEQ – Nonlimited

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	126,434,701	114,264,835	114,264,835	82,049,887
FTE	0.00	0.00	0.00	0.00

Program Description

The Nonlimited program contains the bond sale proceeds for all Department programs. In 2001-03 bond sales were planned for the State Revolving Fund ($9.1 million) and orphan site environmental cleanup ($4 million), however these sales were delayed and debt service savings were used to meet some of the state-wide budget shortfall. A program to grant loans to local governments for construction of eligible waste water treatment where the amount available from the SRF was insufficient for the required work was discontinued for 2003-05 due to lack of participation by local entities.

Revenue Sources and Relationships

The primary repayment sources for the bond proceeds include General Fund for State Revolving Fund matching bonds and a combination of General Fund and the Hazardous Substance Possession fee for orphan site bonds.
The Governor's recommendation for 2003-05 payment of debt service on State Revolving Fund bonds uses interest paid on past loans instead of General Fund.

Governor's Budget

The Governor's recommended budget for the agency's Nonlimited expenditures included authority for $34.9 million in new State Revolving Fund loans funded by a bond sale and federal capitalization grants for solid waste facilities and sewer systems. No Nonlimited expenditures for the Industrial Orphan Site program are included in the Governor's budget.

Analyst: Siebert

Department of Fish and Wildlife (ODFW) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	16,719,400	20,503,932	16,643,242	15,854,537
Lottery Funds	5,658,084	10,532,273	9,565,560	9,250,825
Other Funds	82,183,265	86,450,953	93,233,598	97,495,882
Federal Funds	68,990,968	93,838,751	96,636,551	96,379,709
Nonlimited	7,928,450	2,258,015	2,258,015	0
Total	**181,480,167**	**213,583,924**	**218,336,966**	**218,980,953**
FTE	1,003.93	1,056.12	1,096.47	1,105.91

The Department of Fish and Wildlife (ODFW), under direction of its seven-member Commission, manages the fish and wildlife resources of the state. The agency 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 four primary divisions: Fish, Wildlife, Habitat, and Administrative Services. Enforcement of the state's fish and wildlife laws is provided by the Oregon State Police, Fish and Wildlife Division. The agency is facing a number of major issues including declining fish populations, listings, and potential listings of fish species as threatened and endangered, operation and maintenance of fish hatcheries, and landowner relationships and access for hunting. The agency's greatest challenge for 2003-05 is a projected Other Funds revenue base from the sale of fishing and hunting tags and licenses insufficient to continue the current level of agency expenditures. To address this issue the Department is seeking an increase in tag and license fees.

For the 2001 Legislature, the most problematic natural resource program area issue was the Department of Fish and Wildlife. Concerns over management of the agency led the Legislature to pass bills aimed at regaining control over agency direction and activities. The Legislature adopted measures to require Senate confirmation of the Fish and Wildlife Commission's selection of a new director, to direct the agency to move its headquarters to Salem from Portland, and to establish a new statutorily obligated account for the assurance of ending balances. Agency management has taken steps to correct these problems and made fiscal accountability its top priority for the 2001-03 biennium.

ODFW – Fish Division Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	12,138,371	12,501,402	9,489,111	10,477,302
Lottery Funds	5,658,084	10,427,327	9,460,614	9,129,665
Other Funds	24,528,617	24,693,671	28,747,572	28,301,014

Federal Funds	57,324,172	69,445,883	71,817,896	74,745,821
Total	**99,649,244**	**117,068,283**	**119,515,193**	**122,653,802**
FTE	686.16	739.19	770.55	770.11

Program Description

The Fish Division manages and enhances the habitat, production, and use of fishery resources for the benefit of Oregon's citizens and communities. The economic value from the commercial and recreational fisheries is significant to the state both in terms of direct earned income from industry salaries and wages and expenditures of anglers during sport fishing activities. The Fish Division is organized into four program areas: Propagation, Natural Production, Marine Resources, and Interjurisdictional Fisheries.

Revenue Sources and Relationships

Funding of Fish Division programs is derived from a number of sources. General Fund is used primarily to support hatchery operations and Oregon Plan activities focused upon the restoration of salmon populations and watersheds. Other Funds revenues are received from recreational and commercial fishing licenses, tag sales, commercial landing fees, hydroelectric operator fees, contracts with non-federal agencies, interest income, and donations. The 1997 Legislature authorized the agency to begin retaining 100% of the commercial fishing industry fees for deposit into the Commercial Fisheries Fund. Prior to the 1997-99 biennium, 75% of the commercial fishing industry fees were deposited into the General Fund. The 1999 Legislature authorized the agency to retain revenues obtained from confiscated fish landings.

The major Federal Fund source is Dingell-Johnson funds from a federal excise tax on angling equipment. Other federal sources include the U.S. Department of Commerce (National Marine Fisheries Service), the U.S. Department of Energy (Bonneville Power Administration), U.S. Army Corps of Engineers, Department of Interior (U.S. Fish and Wildlife Service), Bureau of Land Management, and Regional Fish Management Councils. Federal funds are received under contractual agreements to operate hatcheries, conduct specific research, provide mitigation, and perform administrative functions. Matching fund requirements vary between 25 and 33% by individual agreement.

Budget Environment

Depressed fishery resources and sales of sport fishing licenses and tags at levels unable to sustain on-going program activities have plagued the Fish Division. This effect was mitigated somewhat by record returns of salmon and steelhead assisted by exceptional ocean conditions in 2000 and 2001. These larger than average returns resulted in an increase in fishing license and tag sales in 2001 and 2002. Even with these higher sales, projected revenue from the sale of licenses and tags is insufficient to continue the current level of Department expenditures in the 2003-05 biennium.

Federal Endangered Species Act (ESA) listings or proposed listings of salmon populations on the Oregon coast, the Klamath River, and the Columbia Basin have increased the pressure on the Natural Production program to effectively manage fish populations. Oregon Plan requirements for fish population surveys and habitat assessments have also created additional workload for the program. In November 2002 the Fish and Wildlife Commission adopted a new Native Fish Conservation Policy, which is intended to provide a scientific foundation to species recovery efforts.

Actions taken by the Pacific Fishery Management Council have lowered the harvest limits of many marine fish species, most recently Groundfish stocks, adversely affecting the commercial fishing industry. In addition, restrictions by Washington and California of nearshore fisheries are putting pressure on Oregon's nearshore fishery resources. The issues and problems associated with both the recreational and commercial fishing sectors have required increasing involvement of the state's fish managers from the Interjurisdictional Fisheries program in intergovernmental forums at the regional and national levels.

The Fish Division's 2001-03 budget was reduced by $3.5 million General Fund based on 2002 special session actions during the interim. The Division received an additional $365,509 General Fund for partial funding of employee salary and benefit increases, $126,105 less than needed to fully fund those increases. Of the $3.5 million total reduction, $1.3 million General Fund was reduced as part of a one-time fund shift that moved $5 million in salmon recovery and watershed restoration activities in a number of natural resources agencies from General Fund to Lottery Funds and Federal Funds. To manage the remaining reductions, the agency utilized increased license and tag revenue to prevent hatchery closures, streamlined hatchery operations, reduced the ability to address emergency hatchery maintenance needs, limited land owner assistance programs, and reduce ocean fisheries surveys. These reductions result in 2003-05 savings of $4.1 million General Fund.

Governor's Budget

The Governor's budget for the Fish Division is $122.7 million, an increase of 2.6% from 2001-03 legislatively approved levels and an increase of 4.8% from the 2001-03 legislatively adopted budget. These increases are due in part to a rebalancing of the Department's budget in accordance with a budget note included in the 2001-03 budget, which occurred during the third special session, to better align the budget with program structure. The Governor's budget retains positions and activities that would be lost due to a revenue shortfall by assuming passage of a license and tag fee increase. The Fish Division budget is $2 million General Fund less than the 2001-03 legislatively adopted level. Lottery Funds for Oregon Plan activities are reduced by $0.4 million due to a shortfall in Measure 66 Operating funding. The budget includes $4.4 million Lottery Funds for a continuation of the Measure 66 Fish Screening Program. The Fish Division receives 78% of all Federal Funds received by the agency; the recommended budget includes $74.7 million Federal Funds, an increase of 4.1% from 2001-03 legislatively approved budget. Over two-thirds of the agency's staff work in the Fish Division. The Governor's budget funds 770.11 FTE in the Fish Division, which is essentially the same number of 2001-03 approved positions.

ODFW – Fish Division/Propagation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,014,054	7,680,028	6,642,836	6,120,374
Lottery Funds	0	0	176,309	0
Other Funds	5,761,888	6,425,838	7,189,401	7,458,944
Federal Funds	25,338,851	29,673,664	30,408,859	32,363,341
Total	**38,114,793**	**43,779,530**	**44,417,405**	**45,942,659**
FTE	261.71	269.51	264.60	256.27

Program Description

The purpose of the Fish Propagation program is to produce fish through artificial propagation to augment natural production and to provide fish for the sport and commercial fisheries. The program's 34 hatcheries and 15 satellite rearing facilities produce about 53 million salmon, steelhead, and trout annually. Funding supports program administration, technical expertise on fish culture and rearing, and hatchery operation and maintenance, which includes fish health monitoring, tagging/fin clipping, and stocking. More than 70% of all fish caught by recreational anglers are hatchery produced fish. Hatcheries are also a tourist attraction and receive 1.4 million visitors per year.

Revenue Sources and Relationships

The Fish Propagation program is funded by various Other Funds revenue sources including fishing licenses and tag sales, contractual agreements with non-federal agencies, commercial fishing industry fees, interest income, and donations. Federal revenues are received from the U.S. Department of Energy through the Bonneville Power Administration, the Department of Commerce through the Mitchell Act, and the Department of the Interior through the Lower Snake River Compensation Plan. General Fund is also provided to support state operated hatchery programs.

Governor's Budget

The Governor's budget for the Propagation program is $45.9 million, an increase of 3.4% from the 2001-03 legislatively approved levels. The budget includes $6.1 million General Fund, $7.5 million Other Funds, and $32.4 million Federal Funds. The requested General Fund is $0.5 million less than the 2001-03 approved budget. The Governor's budget supports a total of 256.27 FTE.

The Propagation program's budget includes several proposed funding changes:

- A shift of $1,141,436 support for the Trask, Salmon River, Cedar Creek, and Elk River hatcheries from General Fund to Other Funds. This change continues a fund shift implemented during the 2002 fifth special session.
- $257,734 General Fund is reduced through the lowering of funding for emergency maintenance needs at nine state-funded hatcheries.

- $186,062 General Fund and $123,166 Other Funds are reduced by moving unemployment expenditures to the Administrative Services program and elimination of two long-term vacancies.
- $2,067,533 Other Funds added from the license fee increase restore 17 positions (15.17 FTE) and related services and supplies; the positions are eliminated in the base budget due to a revenue shortfall.
- Reduces $707,803 Other Funds to reflect a shift of Attorney General charges to the Interjurisdictional program made to better align the budget with operations.

ODFW – Fish Division/Natural Production

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,500,560	2,210,296	741,061	1,728,603
Lottery Funds	5,658,084	10,427,327	9,284,305	9,129,665
Other Funds	12,679,216	11,105,921	12,578,508	10,329,228
Federal Funds	21,290,504	27,691,119	28,249,975	28,868,809
Total	**41,128,364**	**51,434,663**	**50,853,849**	**50,056,305**
FTE	304.38	321.70	332.58	348.72

Program Description

The 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, and administers angling regulations. The Salmon and Trout Enhancement Program, the Restoration and Enhancement Program, and the Fish Screening and Fish Passage Programs are part of the Fish Natural Production program.

Revenue Sources and Relationships

The Natural Production program Other Funds revenue sources include fishing license and tag sales, contractual agreements with non-federal agencies, and hydroelectric operator fees. Federal Funds are received from the Bonneville Power Administration, U.S. Army Corps of Engineers, National Marine Fisheries Service, and the Department of Interior through Sport Fish Restoration funds. The program receives Lottery Funds (Measure 66) for Oregon Plan related work and for fish screening activities. The agency received $4 million of Lottery Funds from Measure 66 capital expenditure funds for the Fish Screening Program in both the 1999-01 and 2001-03 biennia.

Governor's Budget

The Governor's budget for the Natural Production program is $50.1 million, a decrease of 1.6% from the 2001-03 legislatively approved budget and a decrease of 2.7% from the 2001-03 legislatively adopted budget. The recommended budget includes $1.7 million General Fund, which is almost 22% less than the amount approved for the 2001-03 biennium. Nearly two-thirds of the total program funding is derived from Federal Funds, for a total of $28.9 million. The Governor's budget supports a total of 348.72 FTE, an increase of 16.14 FTE from the 2001-03 approved level.

Major funding changes in the Natural Production program's recommended budget include:

- A reduction of $72,683 General Fund to continue reductions taken during 2002 special sessions that eliminated a trout research position and reduced maintenance for fish screens.
- Measure 66 Lottery Funds to support the Fish Screening Program is increased $357,194 to reflect the forecasted increase in available capital expenditure Lottery Funds. Total support for the Fish Screening Program in the Governor's budget is $4,357,194.
- $389,605 Measure 66 Lottery Funds is reduced to meet a shortfall in operating funds by eliminating 2 positions (2.14 FTE) involved in Oregon Plan activities.
- $580,382 Other Funds added from the license fee increase restore 7 positions (7.80 FTE) and related services and supplies; the positions are eliminated in the base budget due to a license and tag revenue shortfall.

ODFW – Fish Division/Marine Resources

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,980,696	1,703,061	1,368,511	1,551,670
Other Funds	2,803,805	2,632,003	3,503,663	3,822,738
Federal Funds	3,343,844	4,917,237	4,976,042	4,733,190
Total	**8,128,345**	**9,252,301**	**9,848,216**	**10,107,598**
FTE	70.79	79.46	87.34	87.81

Program Description

The Fish Marine Resources program recommends regulations and assesses harvest of commercial fisheries including ocean salmon, ocean groundfish, estuary bait fish, shrimp, crab, urchin, and other estuarine species. The program also monitors recreational fishing and is responsible for developing new sustainable fisheries and for assessing harvest levels and making allocation decisions between competing user groups.

Revenue Sources and Relationships

The Marine Resources program receives the majority of Other Funds revenue from the commercial fishing industry through license fees, landing fees, and the proceeds from the sale of confiscated commercial fish. The program also receives some angling license and tag sale revenues. Federal Funds are from the U.S. Department of Commerce and Department of Interior.

Governor’s Budget

The Governor’s recommended budget for the Marine Resources program of $10.1 million is an increase of 2.6% from the 2001-03 legislatively approved budget. The budget includes $1.6 million General Fund, up marginally from 2001-03 legislatively approved levels and down slightly from the adopted budget. The budget funds a total of 87.81 FTE, an increase of 8.35 FTE from the 2001-03 adopted budget due to a rebalance of the Department’s budget implemented during the 2002 third special session to better align expenditures and positions with program operations.

The recommended budget for Marine Resources includes two major funding changes:

- $56,514 General Fund is reduced to continue reductions taken during 2002 special sessions that eliminated at-sea research for juvenile near-shore rockfish, shrimp, and sardine studies.
- $1,571,200 Federal Funds is added for 26 limited-duration positions (14.49 FTE) for the Ocean Salmon program. Ten positions (4.49 FTE) were previously approved in the 2001-03 budget and were phased-out of the base budget. This funding is also used to create 16 additional limited-duration positions (10.0 FTE) by moving services and supplies in existing federal contracts to personal services.

ODFW – Fish Division/Interjurisdictional Fisheries

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,643,061	908,017	736,703	1,076,655
Other Funds	3,283,708	4,529,909	5,476,000	6,690,104
Federal Funds	7,350,973	7,163,863	8,183,020	8,780,481
Total	**12,277,742**	**12,601,789**	**14,395,723**	**16,547,240**
FTE	49.28	68.52	86.03	77.31

Program Description

The Fish Interjurisdictional Fisheries program was created in 1999 from a reorganization of the Natural Production and Marine Resources programs. The program is responsible for management of Columbia River anadromous fisheries, coordination of Columbia Basin activities, and participation in regional and international management councils for the management of marine and migratory fishes. The program monitors and evaluates projects funded through the Northwest Power Planning Council and provides the overall planning and management of the Fish Division.

Revenue Sources and Relationships

The Interjurisdictional Fisheries program receives Other Funds revenue from fishing license and tag sales and from contractual agreements with non-federal agencies. The program also receives small amounts of interest income. Federal Funds are derived from the Bonneville Power Administration, the U.S. Army Corps of Engineers, the National Marine Fisheries Service, and the Department of Interior in the form of Sport Fish Restoration funds.

Governor's Budget

The Governor's recommended budget for the Interjurisdictional Fisheries program is $16.5 million, an increase of 14.9% from the 2001-03 legislatively approved budget. The increase is due primarily to budget rebalance actions made to better align Department expenditures with program operations. The recommended budget supports 77.31 FTE, a reduction of 8.72 FTE from the 2001-03 approved levels.

The Interjurisdictional Fisheries program's recommended budget includes the following proposed funding changes:

- $92,439 General Fund is reduced to continue reductions taken during 2002 special sessions that eliminated an Administrative Assistant position and reduced services and supplies expenditures.
- $576,475 Other Funds added from the license fee increase restore 3.96 FTE and related services and supplies; the positions are eliminated in the base budget due to a license and tag revenue shortfall.

ODFW – Wildlife Division Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,750,478	1,938,529	1,597,684	1,562,732
Other Funds	20,621,546	22,353,656	23,114,029	24,548,358
Federal Funds	7,888,362	13,105,906	13,494,261	15,239,978
Total	**30,260,386**	**37,398,091**	**38,205,974**	**41,351,068**
FTE	166.80	172.31	177.52	192.08

Program Description

The Wildlife Division manages wildlife with the objective of maintaining all species at optimum levels for the recreational and aesthetic benefit of the public, consistent with the primary use of the land and waters of the state. The Division is organized into three program areas: Game, Habitat, and Diversity.

Revenue Sources and Relationships

The Wildlife Division had historically been funded entirely from Other and Federal Funds, except for the Wildlife Diversity program which received approximately one-fourth of its budget from the General Fund. The 1999 Legislature provided one-time General Fund to support activities jeopardized in the 1999-01 biennium due to revenue shortages. This funding was continued by the 2001 Legislature due to insufficient Other Funds revenue. The primary Other Funds revenue source is the sale of hunting licenses and tags. Revenue is also obtained from sales of waterfowl and upland game bird stamps and prints, fines and forfeitures from game law violations, funds from contractual agreements with non-federal agencies, and donations.

Federal Funds received by the Wildlife Division result from federal laws or agreements with federal agencies to complete specific types of work. The single major source of Federal Funds is the Pittman-Robertson Act, which support habitat improvement projects and wildlife management areas. Pittman-Robertson Act funds require a 25% state match.

Budget Environment

The Wildlife Division shared in the revenue shortfalls encountered by the Department over the past 6 years, but not at the same level of intensity found in the Fish Division. National and state trends indicate a declining proportion of the population engaging in hunting activities. Continuation of these trends coupled with difficulties in attaining easy access to traditional hunting locations could result in further erosion of hunting license and tag sales. Projected revenue from the sale of licenses and tags is insufficient to continue the current level of program expenditures in the 2003-05 biennium.

The spread of Chronic Wasting Disease throughout large portions of the United States has focused national attention on containment and elimination of this disease, which is similar to Mad Cow Disease. In response to the threat of this disease spreading among Oregon's cervid populations, the agency banned all importation of live cervids, except reindeer, and whole cervid carcasses that are hunter-killed until August 2004.

The agency began examining issues surrounding wolf migration into the state during the 2001-03 biennium through a series of briefings for the Fish and Wildlife Commission that addressed wolf management, potential impacts on wildlife, landowners, and the public, and reviewed how other states have addressed this issue. To garner public input on the direction state wolf management should take, the Department held extensive public meetings throughout the state. Wolf migration issues will continue to challenge the agency in coming years.

The Wildlife Division's 2001-03 budget is reduced by $0.5 million General Fund based on 2002 special session actions during the interim. The Division received an additional $53,726 General Fund for partial funding of employee salary and benefit increases, $18,708 less than needed to fully fund those increases. To manage the reductions, the agency reduced: public assistance; landowner assistance programs including Green Forage and DEAR; wildlife rehabilitation oversight; and operations of the state threatened, endangered, and sensitive species program. These reductions result in 2003-05 savings of $0.6 million General Fund.

Governor's Budget

The Governor's recommended budget for the Wildlife Division totals $41.4 million, an increase of 8.2% from 2001-03 legislatively approved levels and 10.6% higher than the 2001-03 legislatively adopted budget. The Governor's budget retains positions and activities that would be lost due to a revenue shortfall by assuming passage of a license and tag fee increase. The budget contains nearly the same General Fund level as the approved budget and $0.4 million less than the 2001-03 legislatively adopted budget. The Wildlife Division receives roughly one-third of revenues from the federal government. The proposed budget supports 192.08 FTE, an increase of 19.77 FTE from 2001-03 adopted levels. This increase is created by establishing new positions funded by moving services and supplies expenditures to personal services to better align activities with correct budget categories and continuation of rebalance actions made in accordance with a budget note included in the 2001-03 budget designed to better align the budget with program structure.

ODFW – Wildlife Division/Game

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	669,121	664,153	548,287	580,890
Other Funds	17,399,667	16,984,582	17,882,652	19,061,323
Federal Funds	1,272,086	1,894,908	2,322,795	2,411,490
Total	**19,340,874**	**19,543,643**	**20,753,734**	**22,053,703**
FTE	99.23	97.74	103.78	118.03

Program Description

The Wildlife Game program manages game species including big game, furbearers, waterfowl and upland game birds. Most regional staff are budgeted within the Wildlife Game and the Habitat programs. 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. Hunter access is enhanced through the Regulated Hunt Area (RHA) and the Access and Habitat (A&H) Programs. The RHA is a cooperative program between the Department, landowners, and corporations to allow public hunting on privately controlled lands. The A&H program was initiated in 1993 to provide wildlife habitat enhancement and improved access to private lands. Other duties of the Game program include management of short-term research projects and habitat improvement projects for waterfowl and upland gamebirds. Management and planning for the entire Wildlife Division is included in the Game program budget.

Revenue Sources and Relationships

The Wildlife Game program receives Other Funds revenues from hunter license and tag sales, waterfowl and bird stamp and print sales, and contractual agreements with non-federal agencies. Federal Funds are received through contracts with federal agencies.

Governor's Budget

The Governor's budget for the Game program of $22.1 million represents a 6.3% increase from the 2001-03 approved budget. The budget includes $0.6 million General Fund, which is roughly the same amount in the 2001-03 approved budget. The budget supports 118.03 FTE and includes $19.1 million Other Funds and $2.4 million Federal Funds. The budget adds $3,082,027 Other Funds from the license fee increase to restore 20 positions (16.17 FTE) and related services and supplies; the positions are eliminated in the base budget due to a license and tag revenue shortfall. The budget also includes a $73,923 General Fund reduction to continue 2002 special session actions that reduced oversight in the wildlife permitting and rehabilitation programs and eliminated vacant positions.

ODFW – Wildlife Division/Habitat

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	373,189	531,070	200,172	107,709
Other Funds	2,742,890	4,841,720	4,680,973	5,020,086
Federal Funds	5,353,469	9,389,539	9,574,278	11,215,715
Total	**8,469,548**	**14,762,329**	**14,455,423**	**16,343,510**
FTE	56.15	63.15	63.32	64.63

Program Description

The Wildlife Habitat 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. Projects include cover plantings, wildlife food crops, range rehabilitation, protective fencing, water developments, and artificial nesting sites. Wildlife Habitat is also responsible for coordinating, planning, and conserving existing habitat through contacts with other land management agencies and landowners. The unit operates the Green Forage program to help resolve big game damage problems by providing alternative food sources and the Deer Enhancement and Restoration (DEAR) program to assist landowners in improving mule deer habitat on their lands. The Wildlife Habitat program is also responsible for management of the Access and Habitat (A&H) program. The A&H program started in 1993 and is used to provide both wildlife habitat improvement and improved hunter access to private lands. Projects are approved by a 7-member board and then submitted to the Fish and Wildlife Commission for final action.

Revenue Sources and Relationships

The Wildlife Habitat program receives Other Funds revenues from hunter license and tag sales. The A&H program is funded through a $2 surcharge on hunting and fishing licenses and tags. The A&H program surcharge is set to sunset at the end of 2003. Federal Funds are derived from the Bonneville Power Administration through the BPA Wildlife Mitigation Program and from the U.S. Department of Interior in the form of Pittman-Robertson Act funds.

Governor's Budget

The Governor's budget for the Habitat program of $16.3 million represents more than a 13% increase from the 2001-03 legislatively approved budget. The budget includes $107,709 General Fund, which is a 46.2% reduction from the 2001-03 approved levels and 79.7% less than the legislatively adopted budget. This decrease is caused by a $233,906 General Funds reduction to landowner assistance programs including the Green Forage and DEAR programs originally reduced in 2002 special sessions and continuation of rebalance action made in the 2001-03 biennium to better align the Department's budget with program activities. The overall increase in the Habitat program funding is caused by continued receipt of $4.0 million Federal Funds and the addition of $1.1 million Other Funds from the fee increase. The Governor's budget supports 64.63 FTE, an increase of less than 1 FTE from the 2001-03 legislatively approved level.

ODFW – Wildlife Division/Wildlife Diversity

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	708,168	743,306	849,225	874,133
Other Funds	478,989	527,354	550,404	466,949
Federal Funds	1,262,807	1,821,459	1,597,188	1,612,773
Total	**2,449,964**	**3,092,119**	**2,996,817**	**2,953,855**
FTE	11.42	11.42	10.42	9.42

Program Description

The Wildlife Diversity program goal is the protection and recovery of non-game bird and animal species through the protection and enhancement of populations and habitat of native wildlife. This represents 88% of the total wildlife species in the state. Non-game biologists conduct species surveys, determine species management requirements, initiate efforts to preserve and improve critical habitats, and coordinate wildlife rehabilitation programs. The program provides consultation to other state agencies regarding threatened and endangered species as required under the Oregon Endangered Species Act. Oregon's Threatened and Endangered Species List includes 25 nongame wildlife species and 7 non-game fish species. The state's Sensitive Species List, species not threatened or endangered but with populations or habitats that could lead to listing, includes a total of 136 species or subspecies.

Revenue Sources and Relationships

The Diversity program receives Other Funds revenues from the nongame income tax check-off contribution and interest income. Federal Funds are received from the U.S. Department of Interior for threatened and endangered species activities.

Governor's Budget

The Governor's budget for the Diversity program of $3 million was down marginally from 2001-03 legislatively approved levels. The recommended budget includes $0.9 million General Fund, $0.5 million Other Funds, and $1.6 million Federal Funds. The proposed funding supports 9.42 FTE, which is 2 FTE less than the 2001-03 adopted budget. $153,509 General Fund and one position are eliminated to continue 2002 special session actions. In addition, $135,118 Other Funds and one position are eliminated due to insufficient fee revenue.

ODFW – Habitat Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,229,455	1,814,066	1,668,874	1,460,850
Other Funds	3,485,492	2,980,017	4,245,476	3,032,672
Federal Funds	904,380	1,748,664	1,781,518	1,831,071
Total	**5,619,327**	**6,542,747**	**7,695,868**	**6,324,593**
FTE	42.34	36.99	43.10	32.92

Program Description

The Habitat Division develops policies and coordinates implementation of programs to maintain and enhance habitat for fish and wildlife resources. The program develops procedures for preventing, minimizing, or mitigating impacts to fish and wildlife caused by habitat destruction. Division biologists, assisted by field personnel, analyze and comment on proposals under review by other state, local, and federal agencies. The Division coordinates analysis and written comment on public and private land proposals that affect fish or wildlife habitat. The Division divides operations into two major programs, Water Resources and Land Resources.

Statutory law in Oregon requires or permits Fish and Wildlife Department involvement in actions conducted by a number of other state agencies. The Habitat Division interacts with the actions of the Departments of Agriculture, Environmental Quality, Forestry, Geology and Mineral Industries, Water Resources, the Division of State Lands, and the Office of Energy. The Division is directed by law to participate in the review of hydroelectric reauthorization projects. Federal laws also require federal agencies or their applicants to consult with ODFW on environment and habitat issues.

Revenue Sources and Relationships

The Habitat Division receives Other Funds revenue from fines and forfeitures, charges for services, and hydroelectric permit application fees. Federal Funds include revenue from the Federal Dingell-Johnson and Pittman-Robertson Funds. The Division also receives Federal Funds through contractual agreements with the Department of the Interior and miscellaneous federal grants.

Budget Environment

The demand on state water resources continues to grow, challenging the Division's Water Resources program to reconcile these needs with those of fish and wildlife. Division Land Resources staff have worked to encourage participation in traditional agency conservation and protection programs, while exploring ways to develop and promote nonregulatory incentive programs that encourage voluntary landowner actions. A management study of the agency conducted during the 1999-01 interim suggested combining the Wildlife Division Habitat program with the Habitat Division.

The Habitat Division's 2001-03 budget was reduced by $224,685 General Fund based on 2002 special session actions during the interim. The Division received an additional $58,150 General Fund for partial funding of employee salary and benefit increases, $21,115 less than needed to fully fund those increases. To manage the reductions, the agency reduced training, travel expenses, and supplies and eliminated positions providing GIS support and coordination with watershed councils. These reductions result in 2003-05 savings of $487,920.

Governor's Budget

The Governor's budget for the Habitat Division of $6.3 million is a decrease of 17.8% from the 2001-03 approved expenditures. The budget includes $1.5 million General Fund, down 12.5% from the 2001-03 legislatively approved levels. Other Funds were down by almost 29%, largely due to phasing-out a $1 million grant from OWEB that funded habitat biologists during the 2001-03 biennium. The recommended budget also includes $1.8 million Federal Funds. The proposed budget supports 32.92 FTE, a decrease of 10.18 FTE from 2001-03 approved levels. This decrease is also largely a function of phasing-out the positions supported by the OWEB grant.

The Habitat Division's recommended budget includes the following funding changes:

- $273,173 General Fund is reduced with the continuation of 2002 special session actions that eliminated coordination with the U.S. Fish and Wildlife Service on restoraton activites in the Klamath Basin and reduced technical support for watershed councils.
- $71,905 General Fund is transferred to the Fish/Natural Production program to reflect moving two Oregon plans positions to this program to better align the budget with program operation.
- $370,703 Other Funds are reduced to reflect elimination of excess limitation for responding to natural resource damage. This limitation has not been needed in the past and if limitation is needed to respond to a natural resource disaster, the Department would seek limitation from the Emergency Board.
- $310,511 Federal Funds and $147,223 Other Funds are added as the net effect of: making 3 limited duration positions (3.0 FTE) that participate in StreamNet information management activities permament using federal grant funding through the Bonneville Power Administration; contining a limited duration position funded by ODOT to assist on stream passage on road projects; moving a budget analyst position; and transferring unemployment compensation expenditures to the Administration Division.

ODFW – State Police Enforcement

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	9,723,159	11,464,415	11,464,415	11,865,670
Total	**9,723,159**	**11,464,415**	**11,464,415**	**11,865,670**
FTE	0.00	0.00	0.00	0.00

Program Description

The Oregon State Police, Fish and Wildlife Division's primary responsibility is 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. The Department of Fish and Wildlife contracts with the Oregon State Police to provide these law enforcement services. These enforcement positions are included in the State Police budget. Officers in the Fish and Wildlife Division can enforce traffic, criminal, boating, livestock, and environmental laws and respond to emergency situations.

Revenue Sources and Relationships

The State Police Fish and Wildlife Division receives General Fund support directly through the Oregon State Police Department budget and Other Funds revenue from the Department of Fish and Wildlife. Beginning with the 1999-01 biennium, the Fish and Wildlife Division is also provided Lottery Funds (Measure 66) to support enforcement of fish and wildlife policies. The revenue provided by ODFW represents equal shares of fishing and hunting license resources. The Division also receives smaller amounts of revenue from the Parks and Recreation Department for Deschutes River enforcement, from the Department of Environmental Quality for environmental investigations, and from the Marine Board for enforcement of boating laws.

Budget Environment

The State Police Fish and Wildlife Division is challenged with enforcing emergency/temporary rules adopted to protect sensitive fish and wildlife resources and maximize recreational and commercial opportunities. The fact that these rules are not printed in the annual regulation pamphlet requires added enforcement presence to ensure the rules are effective in achieving the desired result. The Division also serves a vital function in the Oregon Plan by providing enforcement of laws designed to protect the remaining salmon populations.

The proportion of the State Police Fish and Wildlife Division's operating budget funded with transfers from the Department of Fish and Wildlife has declined over time. In the 1981-83 biennium, 75% of the enforcement budget was funded by hunting and angler license revenues from the Department of Fish and Wildlife. During 1991-93, ODFW funds comprised 69% of the fish and wildlife enforcement budget of the State Police. By the 2001-03 biennium, the proportion dropped to only 45%. The remaining funding has been supported by direct state support, through the General Fund and Lottery Funds.

Governor's Budget

The Governor's budget includes a transfer of $11.9 million Other Funds from ODFW revenues for support of the State Police Fish and Wildlife Division. The amount represented a 3.5% increase from the 2001-03 transfer. As a result of revenues not being able to meet salary roll-up costs, the Governor's budget for the Oregon State Police Fish and Wildlife Division includes a reduction of 3 positions that were funded with ODFW revenue transfers. With this reduction the Governor's budget funds a total of 61 positions using license and fee revenue.

ODFW – Agency Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,149,181	4,038,156	3,683,446	2,142,381
Lottery Funds	0	104,946	104,946	121,160
Other Funds	20,336,130	20,404,108	21,101,568	25,383,812
Federal Funds	1,556,121	1,293,440	1,298,018	1,306,833
Total	**23,041,432**	**25,840,650**	**26,187,978**	**28,954,186**
FTE	107.63	106.63	104.30	109.80

Program Description

Agency Administration provides general support functions to all programs of the Department. The Division includes the Office of the Director, the Fish and Wildlife Commission, Commercial Fishery Permit Boards, and the divisions of Human Resources, Information and Education, Administrative Services, and Information Systems. Agency Administration is also responsible for implementation and development of the Strategic Operational Plan and for management of the Point-of-Sale licensing system.

The Point-of-Sale licensing system was approved for development in the 1997-99 biennium after the vendor providing the previous system indicated its planned withdrawal of support. The replacement system was developed using internet technology for installation in all license agent locations, approximately 556 sites.

Revenue Sources and Relationships

The Division is financed through a combination of General Fund, Other Funds, and Federal Funds. Other Funds include license and tag sales, federal indirect cost recovery, and small amounts of miscellaneous revenue, such as interest from certificates of participation, donations, and miscellaneous sales. Federal Funds are received from the U.S. Fish and Wildlife Service in support of the Hunter Education and Aquatic/Angler Education programs.

The operational costs of the Point-of-Sale licensing system are paid out of an agent fee collected on each transaction. One-half of the fee is retained by the agent with the other half transferred to the Department.

Budget Environment

The agency made fiscal accountability its top priority for the 2001-03 biennium. The agency's budget development process is guided by the Strategic Operational Plan. The Plan was developed to guide agency decision-making on budget challenges over the next six years. The agency developed its budget plan with the assistance of an External Budget Advisory Committee and presented the budget plan to the public at a series of public meetings. Based on the responses to the plan, the Department made changes to priorities that were adopted by the Fish and Wildlife Commission. As part of its effort to ensure fiscal accountability, the Division provides reports to the Fish and Wildlife Commission on current biennium revenues and expenditures at each of its meetings.

The 2001 Legislature passed Senate Bill 62 which reestablished the Fish Endowment Account as a Deferred Maintenance Account and allows the agency to use the account for short-term cash flow needs, guarantees a certain amount of ending balance for the agency, and dedicates all interest earned on the account to pay for deferred maintenance needs at hatcheries and other field facilities.

The Administration Division's 2001-03 budget was reduced by $409,320 General Fund based on 2002 special session actions during the interim. The Division received an additional $40,468 General Fund for partial funding of employee salary and benefit increases, $14,142 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to eliminate public information documents and reduce the amount of General Fund transferred to the Deferred Maintenance Account by the 2001 Legislature. The agency also eliminated funding for supplies and maintenance on the Headquarters building, resulting in 2003-05 savings of $53,379 General Fund.

Governor's Budget

The Governor's recommended budget for the Agency Administration Division of $29 million is an increase of 10.6% from 2001-03 legislatively approved levels. The budget includes $2.1 million General Fund, down 41.8% from the 2001-03 approved budget. This General Fund reduction is caused by removing a one-time $2.2 million payment to the Deferred Maintenance Account. The budget also includes $25.4 million Other Funds, an increase of over 20% from 2001-03 legislatively approved levels. The largest component of this Other Funds increase is caused by the transfer of $2.3 million from debt service, previously used to pay debt on the Portland headquarters, to the Administration Division to pay rent for the new headquarters in Salem.

The Agency Administration recommended budget includes the following additional funding changes:

- $125,681 General Fund and $185,306 Other Funds are added for unemployment compensation expenditures from other programs to more correctly reflect administrative costs in the budget.
- $515,167 Other Funds add 3 positions (4.50 FTE) to reflect the transfer of a budget analyst from the Habitat Division, the addition of two limited-duration positions and increasing months on two other existing part-time positions in the human resources section, and restoring an executive support position that was inadvertently eliminated during 2002 second special session.
- $435,579 Other Funds added from the license fee increase restores 4 positions (4.0 FTE) and related services and supplies; the positions are eliminated in the base budget due to a license and tag revenue shortfall.

ODFW – Nonlimited Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	7,928,450	2,258,015	2,258,015	0
FTE	0.00	0.00	0.00	0.00

Program Description

Nonlimited expenditures finance payment of debt service on previously issued certificates of participation for the Point-of-Sale (POS) computer upgrade and debt on the Portland headquarters building.

Revenue Sources and Relationships

The costs of development and implementation of the new POS system were financed with the sale of $3 million in certificates of participation. All these certificates of participation were paid during the 2001-03 biennium. Remaining debt on the headquarters building was repaid with the sale of the Portland building as part of the moving of headquarters from Portland to Salem.

Governor's Budget

The Governor's budget includes no expenditures for debt service as all outstanding debt was paid during 2001-03 and the $2.3 million Other Funds that had been used to service the debt on the Portland headquarters building is transferred to the Administrative Services Division to pay rent on the new Salem headquarters.

ODFW – Capital Improvement

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	451,915	211,779	204,127	211,272
Other Funds	3,488,321	4,555,086	4,560,538	4,364,356
Federal Funds	0	3,144,858	3,144,858	3,256,006
Total	**3,940,236**	**7,911,723**	**7,909,523**	**7,831,634**
FTE	1.00	1.00	1.00	1.00

Program Description

The Capital Improvement budget finances hatchery and wildlife management area facility repairs and improvements. Projects include diking, nesting, water control, and installation of bird netting, repairs to roads, channels, intakes, and ponds. The program includes a position for clerical support to the Restoration and Enhancement Board, funded by surcharge revenues.

Revenue Sources and Relationships

The Oregon Fisheries Restoration and Enhancement Act of 1989 authorized a surcharge on commercial and recreational licenses and poundage fees to finance fish restoration and enhancement projects. The 1997 Legislature not only extended the sunset of the surcharge for the Restoration and Enhancement Program, but increased the amount of the surcharge from $2 to $5. A portion of the additional revenue generated by the surcharge increase was directed to supplement funding for the Oregon Plan's Watershed Improvement Grant Fund. With passage of Measure 66 dedicating Lottery Funds for the Watershed Improvement Grant Fund, the 1999 Legislature reduced the surcharge to the original $2 per license. The Restoration and Enhancement Program surcharge is again set to sunset at the end of 2003. Nearly all of the Other Funds expenditures in the Capital Improvement budget are Restoration and Enhancement Board projects. All General Fund expenditures are for emergency hatchery repairs.

Budget Environment

Hatchery maintenance needs continue to grow. Generally, hatchery facilities are aging and need improvements to water supplies and waste water systems. A Hatchery Maintenance Study, completed at the request of the 1993 Legislature, estimated the following maintenance needs - hatcheries, $267.4 million; housing, $17.5 million; and liberation equipment, $1.4 million. The Department is in the process of updating the status of current and deferred maintenance needs.

The 1989 Legislature created the Fish Endowment Account to partially address hatchery maintenance problems. Interest off of the Fish Endowment Account was directed for use in funding hatchery maintenance projects. A study conducted by the Legislative Fiscal Office for the Joint Legislative Audit Committee during 1999-01 revealed that the Fish Endowment Account had never been used for these purposes. The 2001 Legislature repaid the Fish Endowment Account with $2.1 million General Fund and recreated it as the Deferred Maintenance Account with passage of SB 62. The account was established to direct all interest earned on the account's principal balance for use on hatchery and field facility capital improvement.

Governor's Budget

The Governor's budget funds the Capital Improvement program at a total of $7.8 million, which is nearly the same level of funding as that provided in the 2001-03 legislatively approved budget. The budget adds $1,821,534 Other Funds from continuation of the Restoration and Enhancement Program surcharge. Federal Funds are included in the budget at approximately the same level as the 2001-03 biennium and would be used for a variety of projects including maintenance on federal hatcheries.

ODFW – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Federal Funds	1,317,933	5,100,000	5,100,000	0
FTE	0	0	0	0

Program Description

The Capital Construction budget is for major construction or acquisition projects. No capital construction projects are anticipated in the 2003-05 biennium. If new projects and funding were to become available, the Department would seek federal funds expenditure limitation from the Emergency Board.

Revenue Sources and Relationships

No Federal Funds are anticipated for capital construction expenditures in 2003-05.

Department of Forestry (ODF) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	32,446,890	36,430,991	39,851,904	36,550,441
Lottery Funds	379,400	0	0	0
Other Funds	127,759,665	174,068,405	268,024,905	162,668,712
Federal Funds	2,292,316	3,554,566	12,489,419	26,635,445
Nonlimited	20,100,090	7,514,800	7,514,800	12,500,000
Total	**182,978,361**	**221,568,762**	**327,881,028**	**238,354,598**
FTE	901.85	944.24	942.65	904.11

The Department of Forestry (ODF), directed by the seven-member Governor-appointed State Board of Forestry, is a multi-program, multi-funded agency designed to administer the forest laws and policies of the state. The Department provides a cost-effective system of state and private forest land fire protection, manages state forest lands, and provides stewardship for non-federal forest lands through administration of the Forest Practices Act and provision of forestry assistance. The Department's mission, values, and strategies are included in the *Forestry Program for Oregon*, a comprehensive planning document completed during 1995. During the update of the planning document, the Board adopted five vision statements:

- Healthy forests providing a sustainable flow of goods, services, and values such as water, fish, air, wildlife, and products.
- Land owners willingly making investments to create healthy forests (public and private).
- Broad, statewide coordinated forest resource policy among Oregon's natural resource agencies.
- A Board of Forestry recognized as an impartial deliberative body operating in an open process in the public interest.
- Adequate funding for the Department of Forestry to efficiently and cost-effectively accomplish the mission and objectives of the Board.

ODF – Protection From Fire

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	15,943,822	16,815,067	21,820,111	16,680,624
Other Funds	59,564,274	50,955,184	142,755,534	51,846,078
Federal Funds	0	0	8,268,886	15,440,323
Nonlimited	4,533,105	7,514,800	7,514,800	12,500,000
Total	**80,041,201**	**75,285,051**	**180,359,331**	**96,467,025**

Program Description

The Protection From Fire program provides fire protection for nearly 16 million acres of private, state, and federal forest lands, operates an industrial fire prevention program, and, through the Emergency Fire Cost Committee, finances costs of catastrophic fires. Of the total acreage, 12.1 million is privately owned, 1.2 million is state and local government land, and 2.5 million is federal, mostly Bureau of Land Management (BLM) Western Oregon lands. The total acreage has a current estimated value at risk of approximately $60 billion. The program finances costs for central and field administration, fire suppression crews, facilities maintenance, fire cache, communications, and weather and mapping services. Program services are delivered through 13 forest protection districts including three locally managed Forest Protective Associations. Over one-third of all agency positions are assigned to this program.

The Legislature combined two other program units with the Protection From Fire program in 1995. The four-member Emergency Fire Cost Committee is comprised of forest landowners or their representatives. The committee manages the Oregon Forest Land Protection Fund (OFLPF), which is used to purchase insurance for catastrophic fires and to equalize extraordinary fire costs among forest protection districts. The Cooperative Fire Program provides forest management services to public and private forest landowners through contracts. The purpose is to maintain trained fire suppression personnel through the off-season and to maximize the use of public services through the sharing of resources. Both programs are entirely supported with Other Funds revenue.

Revenue Sources and Relationships

The State's Protection from Fire program is provided in three levels with separate funding mechanisms:

- *Base Protection* – ODF's base protection program is delivered through ten local Forest Protection Districts and three private Forest Protective Associations. Each of the local fire protection units prepares an operating budget for prevention, detection, resource readiness, initial attack, and extra cost deductible. The revenue to support the local budgets comes from a combination of the Public Share Fire Fund (General Fund) and forest patrol assessments on local forest landowners. The assessment system includes more than 291,000 parcels, with and without improvements. The distribution is established in statute as 50% General Fund, 50% landowner assessment. Since each local budget is developed independently, the forest patrol assessments charged against subject landowners vary by district. The assessments are collected by county assessors and are made on a per acre basis with a minimum assessment of $18.00 per lot. Public landowners receive no General Fund match and pay the full cost of fire protection.
- *Emergency Protection* –The purpose of emergency protection is to pay for the excess fire suppression costs of major fires in Oregon. The enabling legislation is based on the belief that the emergency fire suppression costs on forest lands protected by the State Forester need to be equalized so that no single district is required to pay the full amount of fire fighting expenses. Funding for emergency costs is provided through the Oregon Forest Land Protection Fund (OFLPF), administered by the Emergency Fire Cost Committee. The OFLPF essentially serves as an insurance policy for local landowners in each of the fire protection districts. Revenues to support the OFLPF are estimated to be $16.6 million in 2003-05, and are generated from an assortment of landowner assessments and taxes:
    - harvest tax of $0.50/million board feet (mbf) on all merchantable forest products; the tax is suspended when the reserve base amount of the OFLPF is projected to exceed $15 million ($5.7 million);
    - acreage assessment on all protected forest land ($0.04 per acre for protected western Oregon forestlands, $0.06 per acre for eastern Oregon protected forestland, and $0.06 per acre for all western Oregon class 3 forestlands) ($1.45 million);
    - assessment of $3.00 per lot (out of the $18.00 minimum assessed for forest patrol) ($1.04 million);
    - surcharge of $38.00 for each improved tax lot ($7.95 million); and
    - interest from State Treasurer investments of the fund ($0.51 million).

  The OFLPF reimburses fire suppression costs after a district meets an annual deductible based on protected acreage and a deductible of $25,000 for any one fire or on any one day.
- *Catastrophic Protection* – State law requires the purchase of insurance to cover the fire suppression costs during catastrophic fire situations when expenses could exceed the capacity of the OFLPF. The current insurance policy provides $43 million total insurance with an annual deductible of $10 million and an annual premium of $2.4 million. Also by statute, the landowners' responsibility is limited to $10 million per year, including the cost of insurance premiums and all claims paid to local districts from the OFLPF. Beyond this limit, the cost responsibility falls on the General Fund. The current reserve and expenditure limits are inadequate when dealing with severe fire seasons and higher per unit costs for firefighters and equipment. A legislative concept has been filed to raise the annual expenditure limitation from $10 million to $12.5 million.

Budget Environment

Fire suppression efforts and costs are driven by forest health (insect and disease damage) and weather (drought and lightning storms) and cannot be predicted with certainty. Over 7.5 million acres of forestland in eastern and southern Oregon are suffering from poor forest health and remain untreated. The last decade of drought has affected much of Oregon's forests. In addition, the siting of dwellings and other improvements on forestlands continues to increase the challenges to fire managers and large areas of the state have no fire protection coverage. Fires originating on these unprotected lands can be a threat to protected forestlands and communities. The increasing numbers of homes in the forest complicates protection priorities and requires additional coordination by fire protection agencies resulting in higher costs and greater damages. Numerous structures located on forestland have not been included within the boundaries of rural fire districts and are unprotected. An estimated 6 million acres of land in north central and southeast Oregon are completely unprotected. Fires originating in these unprotected areas threaten protected forest land. Fewer fire protection resources are available from the private sector such as logging crews and equipment. Federal budget cuts and local resource constraints have also decreased existing wildfire protection levels by reducing fire fighting resources and revenues. Also, federal fire management policies have reduced the overall productivity of suppression resources and at times limited the availability of critical resources.

During the special legislative sessions held in 2002 to balance the state's General Fund, Forest Protection's budget was reduced by $1,239,699 General Fund lowering fire protection levels and deferring vehicle and fire equipment purchases. The Forest Protection Program received an additional $501,444 General Fund to cover the additional salary requirements at approximately 75% of actual costs. The agency expects these reductions to be covered by vacancy savings and reductions in services and supplies in 2001-03.

HB 5100 from the 2002 fifth special session provide for an additional $681,474 General Fund to be disappropriated from the agency's budget if the January 2003 tax measure was not approved by voters. The defeat of the measure will result in reducing further the level of fire protection increasing risk for wildfire occurrence from human causes and a greater number of fires escaping initial attack and becoming large fires leading to greater financial impact to forest landowners and damage to forest resources.

Governor's Budget

The Governor's recommended total budget of $96.5 million is $83.9 million or 46.5% less than the 2001-03 legislatively approved expenditure level. Most of the reduction is related to phasing out the one-time costs of $96 million associated with the 2001 and 2002 extraordinary fire costs and an $8.3 million federal grant approved in the 2002 third special session. The Governor's recommend budget also reflects a reduction of $3.2 million General Fund, $7 million Other Funds and 18 positions (32.37 FTE) to address the 2003-05 biennium impact of reductions from the 2002 fifth special session. The reductions impact the program's ability to conduct training, fire analysis, fire reporting, and fire prevention.

An increase of $4.7 million in the nonlimited expenditures reflects payments to districts for fire fighting cost reimbursement. The recommended budget continues the Protection From Fire assessment program at the statutorily-required 50:50 distribution between the General Fund and private forest landowners. Between 1991 and 1999, the Legislature had approved a 45:55 split each biennium to reduce the amount of General Fund needed to operate the program. The recommended budget includes a total of $16.6 million General Fund, which funds the program at the 2001-03 legislatively adopted budget level. The recommended budget also adds $111,707 Other Funds expenditure limitation to support a 0.5 FTE for administration of the Emergency Fire Cost committee previously unbudgeted in the Other Funds expenditure limitation.

Three program enhancements are included in the Governor's proposal. An increase of $12.6 million Federal Funds expenditure limitation and 3 limited duration positions (3.0 FTE) are added to enable the program to fully utilize and manage federal grant funds available through the National Fire Plan. The National Fire Plan provides funds to help reduce the fuels problem, make wildland-urban homes more defensible, increase the capabilities of state and local fire districts, assist with community fire planning, and increase public education and fire prevention efforts. Most of these federal grants are "passed through" to local fire districts and homeowners. The volume of grants under this program appears to be increasing. Although the volume of grants is unknown, federal grant funds are expected to be sufficient to support a grants coordinator and two support staff. To address billings for fire protection related to the 2002 fire season from the US Forest Service that are not received and processed for payment until 12 to 16 months after the fire, the recommended budget includes the addition of $6 million Other Funds. To address the increased workload of administering crew contracts, coordinating with other agencies, development of contracts and standards, and training in the Cooperative Fire Program, the recommended budget is increased by $639,485 Other Funds and 16 positions (7.38 FTE). Two permanent full-time positions, a Contract Coordinator and an Office Specialist 2, are proposed to address the contract administration portion of the workload and 5.38 FTE's spread over 14 positions will address workload in field units relating to safety training and fitness standards for field crews.

The remaining increases in the recommended program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies and state government service charge assessments for a net increase of $2 million General Fund, $1.6 million Other Funds; $2.8 million Federal Funds; and $0.27 million Nonlimited Other Funds.

ODF – State Owned Forest Lands

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	38,980,804	56,634,281	57,969,974	63,615,047
Federal Funds	0	0	0	358,571
Total	**38,980,804**	**56,634,281**	**57,969,974**	**63,973,618**

FTE	252.22	255.83	255.83	270.18

Program Description

The State Forest Management Program manages 786,000 acres of state forestlands on behalf of counties and the Common School Fund. The Board of Forestry owns nearly 85% (654,000) of these acres, including the five state forests (Tillamook, Clatsop, Santiam, Sun Pass, and Elliott). Counties transferred the title to these lands to the Board of Forestry in the 1930s and 1940s. The remaining 132,000 acres are the Common School Lands, which are managed by ODF under contract with the State Land Board. The primary goal of the program is to provide for healthy, productive, and sustainable forests through active management that will produce sustainable timber and revenue on Board of Forestry lands and maximize revenue over the long term on Common School Lands.

The Department participates in a cooperative tree improvement effort with other major landowners to increase the yield and quality of forest products. The State Forest Management Program also operates the J.E Schroeder Seed Orchard to provide improved tree seed for planting on state land, on non-industrial landowner properties, and on 13 industrial lands whose owners share orchard expenditures.

Revenue Sources and Relationships

The State Forest Management Program is entirely self-financed from timber sales and the sale of special forest products. The Department retains 36.25% of timber sales for management of the county trust lands. The remaining 63.8% is distributed to the counties and local taxing districts where the forestland is located. ODF projects the state's share of timber sales to be $47.6 million for 2003-05. The agency is reimbursed for Common School Fund land management costs and the remaining revenue goes to the Common School Fund. Management costs are approved by both the Board of Forestry and the State Land Board. Board of Forestry lands are expected to generate $83.8 million for counties and local taxing districts, and timber sales from Common School Fund lands will generate $26.6 million in revenue during the 2003-05 biennium. Management costs on the Common School Fund lands are proposed in the budget at slightly over $12.2 million for 2003-05.

Budget Environment

The level of forest management on county trust lands is dependent upon timber receipts. The Department must be careful to meet the statutory and constitutional fiduciary responsibilities through timber harvests while protecting and making available the other forest values. The program will plant 8,700 acres with appropriate tree species and genetic sources of tree seed; fertilize and prune 29,500 acres; conduct regeneration harvest on 13,418 acres; and commercially thin or partially harvest 22,530 acres during the 2003-05 biennium. The agency projects a relatively stable timber market during the 2003-05 biennium.

Governor's Budget

The Governor's recommended budget of $64 million Other Funds is $6 million or a 10% increase over the 2001-03 legislatively approved expenditure level. The recommended budget includes the addition of $418,285 Other Funds and 11 positions (2.5 FTE), including one Principal Executive Manager D; one Maintenance/Laborer Coordinator; one Administrative Specialist 2, three Natural Resource Specialist 1's; one Public Services Representative 3, one Laborer 1 ; one Laborer 2; and two student professional Forest Workers to operate the Tillamook State Forest Interpretive Center scheduled to open in 2005. The positions will be funded from revenues to the Forest Development Fund or from the sales of forest products on state forest lands.

The recommended budget provides $1.8 million Other Funds and 14 positions (13.3 FTE), including three Natural Resource Specialist 3's; five Natural Resource Specialist 2's; two Natural Resource Specialist 3's; 3 student/professional Forest Workers; three Office Specialist 1's; one Administrative Specialist 2; and one Office Manager to fully implement integrated forest management plans for all state forests in periods of average timber markets and revenue flow. The staff and associated services and supplies will be funded from projected revenues to the Forest Development Fund and from the sale of forest products on state forest lands.

The recommended budget also provides $221,131 Federal Funds expenditure limitation to receive and spend federal money related to development and enhancement projects for recreation, stream restoration, and fish passage on state forestlands. A specific federal grant program has not yet been identified. The agency will need to request permission from the Legislature to apply for any new federal grants.

The remaining increases in the recommended program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $3.6 million Other Funds; and $13,440 Federal Funds.

ODF – Forest Practices

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,316,217	8,791,267	8,018,441	8,381,648
Lottery Funds	379,400	0	0	0
Other Funds	5,454,405	6,738,956	6,929,632	6,855,468
Federal Funds	91,015	103,856	107,938	334,235
Total	**13,241,037**	**15,634,079**	**15,056,011**	**15,571,351**
FTE	102.24	109.92	109.49	94.20

Program Description

The Forest Practices Act, initiated in 1971, regulates timber harvesting and reforestation on 12.3 million acres of private, state, and county owned forest lands. The statutory objective is the promotion of forest management practices consistent with sound management of soil, air, water, fish, and wildlife resources. The program's goals are to ensure the continuous growing and harvesting of forest tree species is maintained as the leading use of privately owned forestland, and to ensure forest practices are consistent with the sound management of soil, air, water, fish, and wildlife resources. The Forest Practices Act has been revised in nearly every legislative session since 1979, including major amendments in 1987 and 1991 to change the requirements governing stream protection, clear-cuts, reforestation, and scenic highway corridors. Senate Bill 12 (1999) provided additional authority for the Department to adopt rules to reduce public safety risks from rapidly moving landslides. Staffing includes 54 forest practice foresters across the state that review harvest plans and inspect operations for compliance. The Forest Practices program is also responsible for the Smoke Management/Fuels program, which regulates prescribed burning on all forestlands in Oregon in compliance with federal and state air quality standards.

Revenue Sources and Relationships

The Forest Practices program is funded by a combination of 60% General Fund and 40% Forest Products Harvest Tax (FPHT). The harvest tax rate is set in statute each biennium once the Forest Practices program budget is finalized, based on projections of harvest levels and the amount of revenue needed for program operations. The Smoke Management/Fuels program is funded by registration and burning fees collected from landowners (87%), contractual payments from other government agencies (12%), and landowner assessments (1%). Oregon Watershed Enhancement Board grants provide partial funding for some cooperative research projects.

Budget Environment

Forest Practices workload has steadily increased as cutting on private lands accelerated due, at least in part, to federal supply cutbacks and increased timber values. Until 1988, "notices of operations" (intent to log) averaged about 10,000 annually. For the 2003-05 biennium, the Department anticipates processing over 19,000 notifications of operations per year, plus reviewing and approving 3,000 written plans describing operating methods on sensitive sites, and conducting more than 17,000 on-site inspections for pre-operation planning, active operations, and reforestation auditing. Other factors affecting the Forest Practices program include continued implementation of the Oregon Plan; participation in the Healthy Streams Partnership; implementation of programs to address public concern about landslides on forestland, clear cutting, and the use of pesticides; increased workload necessary to achieve reforestation and "free to grow" status; and determination of appropriate responses to federal government actions and policies on endangered species and clean water programs.

During the special legislative sessions held in 2002 to balance the state's General Fund the Forest Practices budget was reduced by $315,870 General Fund in administrative reductions. The Forest Practices Program received an additional $42,722 General Fund for partial funding of employee salary and benefit increases, $17,372 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, reduce debt service payments, defer computer system maintenance projects, reduce training, and delay supply and equipment purchases.

In addition to the legislatively approved reductions, the program's General Fund budget was reduced by $235,102 through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency will manage the

reduction through accrued vacancy savings shifting critical workload to other positions and delaying other work.
HB 5100 from the 2002 fifth special session provided for an additional $300,585 General Fund to be disappropriated from the agency's budget if the January 2003 tax measure was not approved by voters. The defeat of the measure will result in reducing further the level of landowner assistance, seasonal forest plan monitoring, landslide consultation, smoke management, and processing of civil penalties.

Governor's Budget

The Governor's recommended budget of $15.7 million is $515,340 or 3.4% more than the 2001-03 legislatively approved expenditure level. The Governor's recommend budget reflects a reduction of $619,959 General Fund, $332,188 Other Funds and 9 positions (10.43 FTE) to address the 2003-05 biennium impact of reductions from the 2002 fifth special session. The reductions impact program management, landslide consultation, smoke management efforsts, civil penalty collections, forest operation inspections, and program monitoring.

The recommended budget adds $218,678 Federal Funds and one limited duration Natural Resources Specialist 3 (1.0 FTE) position to alleviate meteorological workload increases due to higher numbers of prescribed burns on federally managed lands east of the Cascades. The additional staff resource will allow the agency to forecast and advise land managers seven days per week during burning periods. Resources to fund the additional position will need to come from an increase of direct payments from federal land management agencies based on the federal agency's willingness to provide more in direct payments to cover the additional costs.

The remaining increases in the recommended program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies and state government service charge assessments for a net increase of $983,166 General Fund; $258,024 Other Funds; and $7,619 Federal Funds.

ODF – Forestry Assistance

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,272,120	1,886,168	1,622,289	1,961,905
Other Funds	1,751,643	3,168,703	3,277,290	3,008,299
Federal Funds	2,155,130	3,371,522	3,539,547	10,415,846
Total	**5,178,893**	**8,426,393**	**8,439,126**	**15,386,050**
FTE	39.43	41.02	41.02	40.98

Program Description

The Forestry Assistance program's primary objective is to provide forest landowners and managers with the information, incentives, services, and assistance needed to encourage a voluntary investment in their forest land beyond the required standards. Oregon has approximately 166,000 non-industrial private forest landowners (NIPFLO) and community forest managers owning a combined 4.5 million acres. Nearly 52,000 of these landowners own and manage at least 10 acres of forestlands. This acreage includes critical habitat for salmon and other fish and wildlife species and has the potential for increased harvest productivity. Forestry Assistance consists of three sub-programs:

- ***Service Forestry*** provides technical and financial assistance to non-industrial private landowners on multiple resource management, forest property tax policies and options, federal cost-share programs, the Forest Resource Trust, and insect and disease prevention.
- ***Forest Health*** surveys, evaluates, and monitors forest insects and diseases, and provides information, education, and advice on integrated pest management practices for non-federal forest landowners.
- ***Community Forestry*** provides leadership and technical services to support the stewardship of the state's urban and community forests.

Revenue Sources and Relationships

The Forestry Assistance program receives support from a number of revenue sources. General Fund is provided for insect and disease activities, including integrated pest management services, and is used to conduct annual aerial surveys, provide forest pest data and maps, and deliver technical assistance for forest landowners. General Fund is also used to provide a match to Harvest Tax resources on a 50:50 basis. Federal Funds are provided by the U.S. Forest Service under a consolidated grant program for forest resource management, forest stewardship, and forest insect and diseases management. The federal funding for these programs requires a 50% state match. Federal funding is also provided for Community Forestry and Forest Health monitoring activities. Other Funds revenues are received from Privilege Tax from the western and eastern Oregon Timber Tax Accounts. These funds are used to inspect under stocked designated forestland, administer the 50% reforestation tax credit program and provide technical assistance to family forestland owners in eastern Oregon. Harvest Tax revenues are used to provide general information and technical assistance to family forestland owners for improvement of forest health and salmon habitat. The program also receives private donations, including the Forest Resource Trust funds and Community Forest donations for specific projects.

Budget Environment

Forest health remains a critical issue for the state's economy. About 8.2 million acres of Oregon's forests have been affected by drought, insects, disease, and fire. The state loses about 1.6 billion board feet of timber every year to insects and disease. Forest managers are concerned about declines in the coastal Douglas-fir forests due to needle diseases, nutrient deficiencies, and weather factors. Dead and dying forests in Eastern Oregon due to past insect infestation need treatment in order to reduce fire hazards and replenish the forest stocks. Many wild salmon and trout populations have declined to all-time low numbers. Assistance is also needed for over 166,000 non-industrial private forest land owners regarding the potential listing of threatened and endangered species. Approximately 783,000 acres of family forestlands are classified as underproducing or without a manageable stand of trees.

During the special legislative sessions held in 2002 to balance the state's General Fund, the Forestry Assistance budget was reduced by $308,443 General Fund in administrative reductions. The Forestry Assistance Program received an additional $44,564 General Fund for partial funding of employee salary and benefit increases, $15,530 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, reduce debt service payments, defer computer system maintenance projects, reduce training, and delay supply and equipment purchases.

In addition to the legislatively approved reductions, the program's General Fund budget was reduced by $71,193 through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency will further delay filing vacant positions shifting critical work to other filled positions delaying other workload indefinitely.

HB 5100 from the 2002 fifth special session provided for an additional $58,940 General Fund to be disappropriated from the agency's budget if the January 2003 tax measure was not approved by voters. The defeat of this measure will result in further delay in filling a service forester in NE Oregon reducing the level of assistance available to help family forestland owners develop and implement projects to reduce hazardous fuels and improve forest health.

Governor's Budget

The Governor's recommended budget of $15.4 million is $7 million or 82% more than the 2001-03 legislatively approved budget. Most of the increase is due to increases in Federal Funds for a proposal to establish a Forest Legacy Federal Grant Program in Oregon at $5 million Federal Funds. The increase in expenditure limitation will provide federal funds to help local governments compensate forestland owners for lost income by purchasing development rights on forestland that has a higher value if converted to non-forest uses. The recommended budget also includes a proposal to permit the agency to secure new federal dollars from the Forest Land Enhancement Program (FLEP) for an increase of $1.7 million Federal Funds. The FLEP program's purpose is to assist family forestland owners develop integrated forest management plans and utilize federal funds to cost share forest activities to enhance their forest resources. The package adds a Natural Resource Specialist 3 and allocates 25% of a position to an existing Natural Resource Specialist 2 (1.25 FTE) to carry out the duties and responsibilities.

An increase of $595,663 Other Funds, a decrease of $339,729 Federal Funds, and the addition of an Office Specialist 2 and a Natural Resources Specialist 2 (2.0 FTE) is recommended to maintain asssistance to family forest landowners in the areas of forest health, road surveys, and forest management standards. A total of 0.82 FTE spread across 3 positions that are currently involved in the administration of the Western Oregon Small Tract Optional Tax Program sunsetting on June 30, 2003, will be shifted to this new program. Funding for the positions will come from the Western Oregon Timber Tax Account.

ODF – Agency Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,914,731	8,853,001	8,391,063	9,526,264
Other Funds	9,216,473	12,364,914	12,517,951	9,640,567
Federal Funds	46,171	79,188	83,048	86,470
Total	**17,177,375**	**21,297,103**	**20,992,062**	**19,253,301**
FTE	83.98	85.98	84.82	73.44

Program Description

Agency Administration includes the State Forester's office and traditional support functions such as finance, property management, personnel, computer services, and public information. Agency Administration is also responsible for policy development, forest resource analysis and planning, administration of the log brand inspection program, land use planning coordination, and facilities maintenance.

Revenue Sources and Relationships

Agency Administration is funded by the General Fund and Other Funds assessed against agency programs on a pro-rated basis by funding source, such as the State Forests Account and Forest Products Harvest Tax. The program also receives a small amount of revenue from fees charged for services and map sales.

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 the Oregon Plan and the development of state forest management plans.

During the special legislative sessions held in 2002 to balance the state's General Fund the Agency Administration budget was reduced by $216,595 General Fund in administrative reductions. The Agency Administration Program received an additional $71,085 General Fund for partial funding of employee salary and benefit increases, $138,103 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, reduce debt service payments, defer computer system maintenance projects, reduce training, and delay supply and equipment purchases.

In addition to the legislatively approved reductions, the program's General Fund budget was reduced by $24,098 through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency will delay filling vacant positions shifting critical workload issues to other positions within the program

HB 5100 from the 2002 fifth special session provided for an additional $316,428 General Fund to be disappropriated from the agency's budget if the January 2003 tax measure was not approved by voters. The defeat of the measure will result in the reducing further the level of operational work activity current staff will be able to process.

Governor's Budget

The Governor's recommended budget of $19.2 million for the Agency Administration program is $1.7 million or 8.2% less than the 2001-03 legislatively approved expenditure level. The recommended budget shifts $3.3 million Other Funds and one position (1.0 FTE) to a new program called Facilities Management and Development. The shift of expenditure limitation centralizes facilities maintenance activities into a single unit to improve property management. The recommended budget also decreases $411,378 General Fund, $920,457 Other Funds and eliminates 11 permanent positions (11.0 FTE) to reflect the impact of reductions from the 2002 fifth special session. The reduction will delay policy analysis and formulation, interagency cooperative projects, data management, and service delivery.

The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $1.4 million General Fund; $1.5 million Other Funds; and $7,282 Federal Funds.

DOF – Facilities Management and Development Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	0	0	3,320,188
FTE	0	0	0	1.00

Program Description

The Facilities Maintenance and Development Program provides oversight and coordinates preventive maintenance and repairs for the agency's 395 structures throughout the state. The program unit is charged with developing a statewide facilities rental pool program to charge other program and field operations the cost of constructing, operating, maintaining, repairing, replacing, equipping, improving, acquiring and disposing of structures.

Revenue Sources and Relationships

Facilities Management and Development is funded by the General Fund and Other Funds assessment against agency programs through a facility rental rate. The program was established to assist in the operations, maintenance, and construction of DOF facilities by providing an additional and relatively stable source of funding to allow more effective management of DOF properties.

Governor's Budget

The Governor's recommended budget is $3.3 million Other Funds and one position (1.0 FTE). The resources are shifted from the Agency Administration Program to focus solely on facilities maintenance activities and will continue to be supported by the program units.

ODF – Forest Nursery Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	6,317,233	6,534,825	6,844,636
Nonlimited	5,464,821	0	0	0
Total	**5,464,821**	**6,317,233**	**6,534,825**	**6,844,636**
FTE	59.06	59.57	59.57	57.25

Program Description

The Department's D.L. Phipps Nursery provides quality, genetically adapted tree seedlings to forest landowners for public and private reforestation. Currently about 50% of the nursery's annual production goes to nonindustrial woodland owners, 28% to the forest products industry, 12% to state forests, and 10% to the Bureau of Land Management. The agency has operated the nursery for over 74 years.

Revenue Sources and Relationships

Expenditures for the nursery program are financed 100% from sales of seedlings and service charges. Fees charged by the Nursery change depending upon costs. The program was changed from nonlimited to limited status by the 2001 Legislature.

Budget Environment

The Forest Nursery Program operates on a business model and adjusts expenditure levels to available revenue. The nursery must maintain an adequate supply of clean water for irrigation of seed crops and is subject to the requirements of the Umpqua Watershed Agricultural Water Quality Management Plan.

Governor's Budget

The Governor's recommended budget of $6.8 million Other Funds is $309,811 more than the 2001-03 legislatively approved program. The increase reflects applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments.

ODF – Equipment Pool Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	12,597,671	12,748,236	13,614,261
Nonlimited	10,102,164	0	0	0
Total	**10,102,164**	**12,597,671**	**12,748,236**	**13,614,261**
FTE	31.32	30.79	30.79	30.96

Program Description

The Department's Equipment Pool program operates a motor pool and a radio pool. The motor pool manages 525 vehicles and other pieces of equipment including airplanes, pickups, trailers, and heavy equipment. The radio pool supports and maintains 3,000 pieces of major communication equipment. The radio pool provides the equipment and support for the Department's radio communication network and serves other agencies, such as the Departments of Agriculture, Parks and Recreation, Fish and Wildlife, Water Resources, Justice, Corrections, and the State Fair.

Revenue Sources and Relationships

Expenditures for the Equipment Pool are financed 100% from fees charged to equipment pool users. The program was changed from nonlimited to limited status by the 2001 Legislature.

Budget Environment

Motor pool operations are affected by changes in fuel prices. The radio pool is affected by changing telecommunications technology requiring new strategies to provide the most efficient and effective exchange of information.

Governor's Budget

The Governor's recommended budget of $13.6 million Other Funds is $866,025 or 6.7% higher than the 2001-03 legislatively approved expenditure level. The increase reflects applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments.

ODF – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	85,488	0	0
Other Funds	498,384	3,791,463	3,791,463	3,924,168
Total	**498,384**	**3,876,951**	**3,791,463**	**3,924,168**
FTE	0.00	0.00	0.00	0.00

Program Description

The Department owns and maintains 395 structures statewide. Examples include mountaintop lookout facilities, fuel facilities, remote guard stations, district and unit offices, seed and seedling processing facilities, and automotive maintenance shops. Many buildings need interior and exterior improvement or major construction because of age, type of construction, and growth of the agency.

Revenue Sources and Relationships

Generally costs are prorated among the funding sources of the programs that occupy the specific facility. In the past, General Fund was provided as the public share match money for projects funded in the Protection From Fire program.

Budget Environment

Many of the Department's structures were built in the 1930s, 40s, and 50s, and are in need of renovation to prevent further deterioration and to meet new standards such as the Americans with Disabilities Act requirements. An architectural feasibility study of the Salem Headquarters site was completed during the 1993-95 biennium. 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. The plan envisions a mix of remodeled and new construction, which preserves sites listed on the National Register of Historic Places and consolidates departmental operations.

Governor's Budget

The Governor's recommended budget of $3.9 million Other Funds for capital improvement projects represents an increase of 3.5% from 2001-03 legislatively approved level. Projects covered within the recommended budget include various park improvements, property exchanges, storage expansions, fuel station relocations, foundation upgrades, office additions, and warehouse construction. The increase reflects applying standard inflation rates for services and supplies.

ODF – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	12,293,682	21,500,000	21,500,000	0
Federal Funds	0	0	490,000	0
Total	**12,293,682**	**21,500,000**	**21,990,000**	**0**
FTE	0.00	0.00	0.00	0.00

Program Description

The Department's Long-Range Facilities Management Plan 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 construction needs to meet workload projections at each site. The Department works with the Capital Projects Advisory Board for review of the agency's space and maintenance needs.

Revenue Sources and Relationships

Capital construction projects are funded through certificates of participation (COPs) and Other Funds generated from the State Forest Management program.

Governor's Budget

The Governor recommends no expenditures for capital construction in the 2003-05 biennium.

Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,248,132	3,232,286	2,883,086	3,118,727
Other Funds	2,533,571	2,603,363	3,289,532	2,877,181
Federal Funds	1,181,886	1,656,613	1,735,069	2,029,359
Nonlimited	89,371	100,000	100,000	100,000
Total	**7,052,960**	**7,592,262**	**8,007,687**	**8,125,267**
FTE	36.38	35.38	34.92	35.33

The Department of Geology and Mineral Industries (DOGAMI) is the state's primary source of geologic information. DOGAMI gathers data and maps the state's geology including geologic minerals and hazards. The Department attempts to reduce the risks of damage from earthquakes, tsunamis, floods, landslides, and coastal hazards. The agency is also responsible for administering surface mining regulations. Department headquarters are located in Portland with the Mined Land Reclamation unit sited in Albany. Two small Geologic Survey offices are located in Baker City and Grants Pass. The agency opened a coastal field office in Newport during the 1999-01 biennium. Employees of the Department are primarily geologists and other geotechnical experts. Funding is from multiple sources including the General Fund, grants from federal and other state agencies, and fees. Agency clients include the mining industry, general public, and various state and local agencies that use geologic information.

DOGAMI – Geologic Survey

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,248,132	3,232,286	2,883,086	3,118,727
Other Funds	1,261,492	1,344,563	1,646,351	1,412,120
Federal Funds	1,054,047	1,430,091	1,454,908	1,740,145
Total	**5,563,671**	**6,006,940**	**5,984,345**	**6,270,992**
FTE	27.88	26.88	26.42	25.84

Program Description

The Geologic Survey unit gathers geologic data and maps mineral resources and hazards. Earthquake preparedness and tsunami hazard mapping receive a high priority. Geographic areas needing tsunami hazard mapping, ground response studies, and earthquake risk mapping have been prioritized by the agency. The information is shared with state and local policy-makers for land use planning, facility siting, building code and zoning changes, and emergency planning. The Geologic Survey program also regulates oil, natural gas, and geothermal exploration and extraction.

The Geologic Survey Program also provides publication and library functions, administrative functions such as budgeting, accounting personnel services, and operates the Nature of the Northwest Information Center. These functions were transferred to the Geologic Survey program as part of a reorganization effort initiated at the direction of the Legislature that merged the Technical Support and Administration program into this program. The Nature of the Northwest Information Center provides public access to a variety of maps, brochures, books, and other materials. In addition, the Center serves as an in-person focal point for inquiries from the general public. If the services were not provided at the Center, each participating agency would need to respond directly to requests from the public for maps, brochures, books, and information. The Center is largely supported by sales revenue and a cooperative agreement with the U.S. Forest Service.

Revenue Sources and Relationships

Federal Funds are expected to be approximately 28% of the Geologic Investigations total budget during 2003-05, which is higher than previous biennia due to increased reliance on federal sources of revenue. The U.S. Geologic Survey, U.S. Bureau of Land Management, Federal Emergency Management Agency, National Oceanic and Atmospheric Administration, and other federal bureaus provide Federal Funds on a reimbursable basis. Additional sources of Federal Funds are from the Federal Emergency Management Agency for mitigation inventory work and from the U.S. Geological Survey for earthquake assessments and mapping activities. Other Funds are received from oil, gas, and geothermal well permit fees and from charges for services on reimbursable projects.

Budget Environment

Two of the agency's major goals are to reduce losses from geologic hazards and to inventory the state's mineral and water resources. The basis for hazard mitigation planning is data collection and the development of ground response models. Funding limitations have restricted data collection and modeling functions, adversely affecting the agency's ability to provide hazard mitigation information and analysis for local communities. Concern over coastal hazards led the 1999 Legislative Assembly to approve the addition of one permanent and one limited duration position and the establishment of a coastal field office. The new positions were directed to assist with defining hazard zones and helping coastal communities with hazard awareness, preparation, and mitigation. The agency was also directed to provide help to local governments with mapping and technical assistance needs in identifying landslide hazards.

The agency's 2001-03 budget was reduced by $438,487 General Fund based on special session actions during the interim. The agency received an additional $89,988 General Fund for partial funding of employee salary and benefit increases, $31,299 less than needed to fully fund those increases. These reductions were managed by reducing an editor position, closing a warehouse, and temporarily shifting support for a number of positions to Other Funds. The agency will be challenged to continue to find new resources to support base program positions if General Fund support remains constrained.

Governor's Budget

The Governor's recommended budget for the Geologic Survey program is funded at a level approximately 5% above the 2001-03 legislatively approved budget. The recommended budget includes a reduction of $497,473 General Fund created by reducing funding for a publications editor position, closing the Department's warehouse, reducing services and supplies, and shifting positions in the Coastal and Geo-hazards Sections, previously supported by General Fund, to Federal and Other Funds revenue sources. Shifted positions would be supported primarily from future reimbursable projects. Most of the program's 2003-05 proposed budget increases from 2001-03 levels are due to inflation and higher anticipated receipts of funding for reimbursable projects.

DOGAMI – Mined Land Reclamation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	0
Other Funds	1,272,079	1,258,800	1,643,181	1,465,061
Federal Funds	127,839	226,522	280,161	289,214
Nonlimited	89,371	100,000	100,000	100,000
Total	**1,489,289**	**1,585,322**	**2,023,342**	**1,854,275**
FTE	8.50	8.50	8.50	9.49

Program Description

The Mined Land Reclamation program provides oversight and regulation for over 17,500 acres of surface mining activities and chemical leach mines in Oregon. The program's purpose is to provide for beneficial uses of the land after the mining use has terminated. The objectives are to conserve the mineral resource and protect the environment while providing for the economic uses of the mined materials. The program has reclaimed some 4,000 acres once dedicated to mining since the program was initiated in 1972. The agency has the legal authority to perform reclamation in default situations. Nearly 20,000 acres are currently under bonding or some alternative security.

Revenue Sources and Relationships

The program is financed primarily from Other Funds derived from aggregate and mine permit fees. For metal and chemical process mining operations, the program bills for actual costs of regulation on a reimbursable basis. Federal funds from an Environmental Protection Agency grant finance Brownfields work on abandoned mined lands. It is anticipated this federal grant will continue into the 2003-05 biennium. Nonlimited expenditures represent reclamation work financed from forfeited bonds and security deposits.

Budget Environment

The Mined Land Reclamation program currently administers approximately 900 active mining permits. The program is also responsible for implementation of the federal Clean Water Act's General Stormwater Permits and the state's Water Pollution Control Facility Permits at aggregate sites under an inter-agency agreement with the Department of Environmental Quality. The program currently administers 201 permits under the federal and state water pollution laws.

The current fee structure is inadequate to continue program operations at their current level. To address this deficit the Department is proposing a fee increase, with industry support, that will enable the program to continue to operate at the current service levels through the 2005-07 biennium. Fees were last increased almost six years ago.

Governor's Budget

The Governor's recommended budget for the Mined Land Reclamation program continues all existing activities at near the current level of activities. The total proposed 2003-05 budget is approximately a 17% increase over the 2001-03 Legislatively Adopted Budget. Most of the program's 2003-05 proposed increase over the 2001-03 adopted level is due to inflation and inclusion of revenue from a proposed fee increase. The budget is 8% below the 2001-03 legislatively approved budget. This decline is created by expenditure limitation increases made by the Emergency Board for new contracts not being included in the Governor's 2003-05 budget.

Department of Land Conservation and Development (DLCD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	9,074,704	10,552,839	9,771,447	8,409,798
Other Funds	2,275,666	1,514,631	1,788,791	1,349,862
Federal Funds	3,206,079	4,242,822	5,175,091	7,468,427
Total	**14,556,449**	**16,310,292**	**16,735,329**	**17,228,087**
FTE	64.02	58.76	60.01	48.30

The Department of Land Conservation and Development (DLCD) is the administrative arm of the seven-member Land Conservation and Development Commission (LCDC) appointed by the Governor and confirmed by the Senate. DLCD staff assist LCDC in adopting state land use goals, ensuring compliance of local land use plans with the goals, coordinating state and local planning, and managing the coastal zone program. Oregon's land use planning system is based on a set of 19 statewide goals that express the state's policies on land use and related topics such as citizen involvement, housing, and natural resources.

LCDC, assisted by DLCD staff, carries out state planning responsibilities through acknowledgment of local plans, plan amendment review, and periodic review. State law requires each city and county to have a comprehensive plan and the zoning and ordinances necessary to implement the plan. When LCDC officially approves the local government plan, the plan is "acknowledged." After acknowledgment, local plans can be changed through plan amendments, which are small, unscheduled changes, or through periodic review. Periodic review is a broad evaluation of the entire local plan and occurs every four to ten years. This review can lead to extensive modification of a plan or to minor adjustments as a way of accommodating changing conditions in the area.

The goals of the agency include protection of farm and forest lands and other natural resources; the fostering of livable, sustainable development in urban and rural communities; conservation of coastal and ocean resources; a clear and predictable land use system; and regional collaboration and coordinated local decision-making. In addition to a main office in Salem, the agency maintains field offices in Waldport, Bend, Central Point, and Portland. DLCD implements the state land use planning laws and assists local governments through three major programs: Operations, Grants, and Landowner Notification.

DLCD – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,990,277	7,297,785	6,995,844	6,136,626
Other Funds	2,187,616	1,423,255	1,697,415	1,258,486
Federal Funds	2,835,079	3,532,812	3,729,291	5,709,566
Total	**11,012,972**	**12,253,852**	**12,422,550**	**13,104,678**
FTE	63.52	57.76	59.01	47.78

Program Description

The Operations program includes the Office of the Director, the Administrative Services and Human Resources Division, and four major program areas. The Office of the Director oversees day-to-day operations, policy, and communications. The Administrative Services and Human Resources Division provides financial, information systems, and personnel services to the agency. In addition to the major programs described below, DLCD operates a Floodplain Management Program and a Dispute Resolution Program.

- The ***Urban and Community Services*** program oversees the implementation of statewide planning goals in Oregon cities over 2,500 in population (roughly 90 cities) and in affected areas of counties. Staff typically participate in more than 50 periodic reviews and review more than 1,000 plan amendments each year. The program also provides technical assistance and grant management for local governments. Key issues include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. General Fund supports the program with some federal funds used for coastal-related work.

- The ***Rural and Community Services*** program oversees the implementation of statewide planning goals in cities under 2,500 in population (roughly 150 cities) and in 36 counties, primarily through the periodic review and plan amendment processes. As in the Urban and Community Services program, staff typically participate in more than 50 periodic reviews and review more than 1,000 plan amendments each year. The program also provides technical assistance and grant management for local governments. Key issues include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources. This program also participates in regional partnerships and community solutions teams. General Fund supports the program with some federal funds used for coastal-related work and other funds used for mineral/aggregate activities.
- The ***Ocean and Coastal Management*** program oversees the implementation of statewide planning goals, with an emphasis on the coastal goals, by local jurisdictions and state agencies in the coastal zone. This oversight is accomplished through periodic review, review of plan amendments, and implementation of the Ocean and Territorial Sea Plans. Staff also provide technical assistance, manage coastal grants, coordinate state and federal programs in the coastal zone, and staff the Ocean Policy Advisory Council. The primary issues facing the ocean and coastal program include public access to the ocean, estuaries, and other waters; development on dunes, beaches, and in estuaries; protection of ocean resources; management of coastal hazards and non-point pollution; and natural resource protection, including salmon and steelhead habitat. This program is funded primarily with federal funds under the Coastal Zone Management Act (CZMA).
- The ***Transportation and Growth Management (TGM)*** program is a joint effort with the Oregon Department of Transportation (ODOT). The program focuses on helping communities manage urban growth, planning an efficient transportation network, and protecting the function of state highway facilities. Staff provide technical assistance and manage grants to special districts, cities, and counties. Federal funding received through ODOT is this program's primary revenue source.

Revenue Sources and Relationships

About one-half of the Operations program is funded with General Fund. Historically, federal funding has supported 25% to 30% of the program. Federal funding in the Governor's budget supports 44% of Operations.

Direct federal funding is primarily from two agencies: the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) and the Federal Emergency Management Agency (FEMA).

NOAA funding under the Coastal Zone Management Act historically has provided between 20% and 30% of the overall costs of the state's land use program. DLCD activities affecting coastal communities are eligible for federal funding since the state's land use planning program represents the core of the federally approved Oregon Ocean and Coastal Management program. DLCD is required to provide 100% matching funds. The agency anticipates receiving $3.9 million in CZMA funds for 2003-05 (not including grants to local communities), compared to $3.3 million in 2001-03.

FEMA funds are used to operate the Floodplain Management Program, which is a condition of participation in the National Flood Insurance Program. FEMA funds require a 25% state match and are restricted to use in floodplain management activities. Revenues from this source are estimated at $2.2 million for 2003-05. This is a substantial increase from the 2001-03 funding level of approximately $200,000 and is due to anticipated funds that will be used primarily for contracted services to update local flood maps.

Other Funds revenue sources historically have included federal Transportation Equity Act for the 21st Century (TEA-21) funds from ODOT for support of the Transportation and Growth Management program. DLCD projects a transfer from ODOT of just over $1 million in 2003-05. This is a decrease of about 18% from 2001-03 funding levels due to policy and budget decisions within ODOT. Other Funds for 2001-03 also include support from ODOT and the Department of Geology and Mineral Industries (DOGAMI) for a mineral/aggregate specialist position. Funding from these two agencies is not expected to continue in 2003-05.

DLCD also receives small amounts of Other Funds revenue from the sale of publications, subscriptions to plan amendment and periodic review notices, and duplicating services.

Budget Environment

Continued population growth and the resulting pressures on transportation systems as well as land management and development increase DLCD's workload. Growth presents challenges to coastal

development, urban growth boundary expansion, development of agricultural and rural lands, preservation of natural resources, and maintenance and development of adequate infrastructure.
The agency is facing significant funding challenges just to maintain current operations. Several positions have been budgeted with federal funds that did not exist and the agency historically has used savings in its General Fund budget to support these positions. With the General Fund shortfall, this practice no longer can be sustained. In addition, the 2001 Legislature funded a position with General Fund for the first half of the 2001-03 biennium to assist local governments and others on mineral and aggregate issues. For the second half of the biennium, ODOT and DOGAMI jointly provided funding to continue the position. However, these agencies have indicated they cannot provide funding beyond 2001-03. These funding issues in conjunction with the reduced level of TEA-21 funds from ODOT in 2003-05 present a significant challenge for the agency to continue existing services without some other funding source. In addition, DLCD is under a federal mandate to participate in non-point source water pollution planning with the Department of Environmental Quality (DEQ). Federal funding for the program is uncertain, but failure to meet the standards and time lines required by the program could lead to a loss of 30% of federal coastal zone management funds to DLCD and water quality funds to DEQ.

During the 2002 special legislative sessions to balance the state's General Fund budget, DLCD's Operations program was reduced by $184,550 General Fund in employee training, professional services, and legal services. It also was reduced by $50,383 General Fund to reflect the funding of salary increases at 74.2% of actual costs. This reduction most likely will be covered by vacancy savings in 2001-03. Another $262,251 General Fund was disappropriated from the agency's budget since the January 2003 tax measure was not approved by voters. In 2001-03, this will result in a delay in filling vacant positions as well as a shift to Federal Funds and a corresponding realignment of staff duties. In addition to the legislatively approved reductions, the Operations budget was reduced by $94,709 General Fund through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency expects to absorb this reduction primarily through vacancy savings. The estimated savings in 2003-05 from the roll-up of permanent reductions made in 2001-03 are approximately $1.5 million.

Governor's Budget

The Governor's budget is a 6.9% increase over the 2001-03 legislatively adopted budget and a 5.5% increase over the 2001-03 legislatively approved level. However, within the latter overall increase, Federal Funds expenditure limitation is increased by 53.1% and General Fund support is decreased by 12.3%. Although most of this decrease is the result of the roll-up effect from 2002 special session actions, it also includes the phase-out of $208,045 General Fund for expenditures related to the Regional Problem-Solving program and for the one-time nature of the buildable lands inventory project established by HB 3557 (2001).

Due to lower TGM and federal revenues, the budget includes reductions of $107,283 General Fund, $355,529 Other Funds expenditure limitation, and $543,753 Federal Funds expenditure limitation as well as the elimination of 6.2 FTE. The budget also eliminates one position (0.83 FTE) and $158,631 Other Funds expenditure limitation related to dispute resolution since the Dispute Resolution Commission proposes to centralize these coordinators in-house. Additionally, it eliminates 0.5 FTE and $87,597 Other Funds expenditure limitation for mineral/aggregate activities no longer funded by ODOT and DOGAMI.

To achieve the General Fund savings in 2003-05 from the roll-up of permanent reductions made in 2001-03, the budget includes the elimination of 4.5 FTE, a reduction in Attorney General services, and a reduction in technical assistance to local governments. The budget anticipates a reorganization plan that includes reduced management staffing, restructured work processes, and a reprioritization of programs.

The budget adds the following:
- $2 million Federal Funds expenditure limitation for 2 positions (1.5 FTE) as well as contracted engineering services for flood map modernization supported by FEMA funds;
- $277,731 Federal Funds expenditure limitation for NOAA-supported public outreach and performance measurement activities related to local coastal government planning; and
- $33,936 Federal Funds expenditure limitation and 1 limited duration position (0.25 FTE) for completion of wetlands inventory work started in the 2001-03 biennium. The funds are from the U.S. Environmental Protection Agency.

DLCD – Grants

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,700,837	2,568,364	2,427,370	1,985,991
Other Funds	88,050	91,376	91,376	91,376
Federal Funds	371,000	710,010	1,445,800	1,758,861
Total	**3,159,887**	**3,369,750**	**3,964,546**	**3,836,228**
FTE	0.00	0.00	0.00	0.00

Program Description

DLCD awards grants to local jurisdictions for maintaining, improving and implementing comprehensive land use plans and regulations and for assisting local governments in meeting the statutory obligation for periodic review of these plans. The Grants program is intended to ensure continued compliance with the statewide planning goals. Grants awarded include those for periodic review, technical assistance, dispute resolution, Regional Problem-Solving, Columbia River Gorge, and small city and county grants. In addition, coastal communities are eligible for small-scale construction grants for public access and waterfront development as well as other types of grants. Management of the Grants program is conducted within the Operations program. No staff positions are included in the Grants budget.

Revenue Sources and Relationships

Federal Funds consist of CZMA funds provided to local coastal governments. These funds are used for planning, monitoring and assistance as well as special projects such as salmon habitat, wetlands planning, nonpoint pollution, and public access. Prior to 2001, this funding source was relatively stable. During the 2001-03 biennium, CZMA funds for the grants to local communities doubled from an original estimate of $0.7 million to slightly over $1.4 million. This increase was due in part to legislative direction to provide more of the CZMA funds to local communities and also as a result of renewed federal funding for "306A" grants, i.e., grants for small-scale construction, restoration, and acquisition projects. In the 2003-05 biennium, the agency expects $1.8 million in CZMA funds for the Grants program.

Other Funds represents dispute resolution matching funds provided by participants.

Since the 1993-95 biennium, DLCD has received General Fund to be transferred to each of the three Oregon counties included in the Columbia River Gorge National Scenic Area. The funds are to be used by the counties in complying with the requirements of the National Scenic Act.

Budget Environment

DLCD notifies local governments of grant requirements and the availability of grant funds. After evaluation and review, recipients enter into an agreement with DLCD regarding the specific work to be accomplished and a time schedule for completion. Local governments experience the demands of residential and other growth, infrastructure needs, natural hazards, and environmental issues. Planning grants from DLCD help local governments keep land use plans and ordinances up-to-date.

The 2001 Legislature phased out the Regional Problem-Solving program, providing funding for the program in 2001-02 only. The funding was projected to be sufficient to complete Regional Problem-Solving efforts then currently underway.

During the 2002 special legislative sessions to balance the state's General Fund budget, DLCD's Grants program was reduced by $140,994 General Fund, including $90,994 due to the defeat of the January 2003 tax measure. In addition to the legislatively approved reductions, the Grants budget was reduced by $20,000 General Fund through the administrative allotment rule due to the December 2002 economic and revenue forecast. These reductions affect grants for technical assistance, periodic review, planning, and dispute resolution. For 2003-05, the savings from the roll-up of legislatively approved reductions are $0.5 million General Fund.

Governor's Budget

The Governor's budget is a 13.8% increase over the 2001-03 legislatively adopted budget and a 3.2% decrease from the 2001-03 legislatively approved level. The agency's Federal Funds expenditure limitation is increased for CZMA grants to local coastal governments. General Fund support is decreased by 18.2% from the 2001-03 legislatively approved level due primarily to the roll-up effect of permanent reductions made in 2001-03, but the decrease also includes the phase-out of Regional Problem-Solving grants ($158,125 General Fund).

DLCD – Landowner Notification

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	383,590	686,690	348,233	287,181
FTE	0.50	1.00	1.00	0.52

Program Description

Ballot Measure 56 was referred to the voters by the 1997 Legislature and approved in the November 1998 General Election, with an effective date of December 3, 1998. The measure requires cities and counties to provide individual written notice to landowners when a new or amended zoning ordinance is proposed that will limit or prohibit uses of the landowner's property. The state is required to reimburse local governments for the notification costs when the proposed ordinance changes are related to changes in state law or policy.

Revenue Sources and Relationships

This program is supported entirely with General Fund. DLCD requested and received an Emergency Fund allocation of $511,500 in January 1999 to begin the landowner notification process. The funding was provided for reimbursement of local government costs, the expenses of a position to manage the local claims, and legal assistance from the Department of Justice on interpretation of the measure's language.

Budget Environment

As future city and county zoning amendments are hard to anticipate, estimating the associated costs of the notification process and associated legal expenses is difficult. With the passage of legislation changing land use regulations, it is expected that increased costs for notification (subject to state reimbursement) will occur in the months following legislative sessions. DLCD processed 86 requests totaling $191,619 in reimbursements in the first 13 months of the 1999-01 biennium. Twenty-one of those requests totaling $52,061 were denied for not meeting statutory requirements. As of June 30, 2002, the agency had processed 27 requests totaling $38,906 in reimbursements. Claims totaling $4,315 were denied for not meeting statutory requirements.

The 2001 Legislature approved a budget of $686,690 General Fund for the 2001-03 biennium, including $494,625 for reimbursement of claims. As a result of 2002 special session actions, the budget was reduced by $330,230, including a reduction of $294,160 for reimbursement of claims, $34,824 for temporary services, and $1,246 to reflect the funding of salary increases at 74.2% of actual costs. In addition, $13,054 General Fund was disappropriated from the agency's budget since the January 2003 tax measure was not approved by voters. In 2001-03, this will result in reduced legal advice from the Attorney General. In 2003-05, the estimated savings from the roll-up of permanent reductions made in 2001-03 are approximately $0.4 million General Fund.

In addition to the legislatively approved reductions, the budget was reduced by $4,214 General Fund through the administrative allotment rule due to the December 2002 economic and revenue forecast. The agency expects to absorb this reduction through lower services and supplies purchases for the remainder of the biennium.

Governor's Budget

The Governor's budget is a 58.2% decrease from the 2001-03 legislatively adopted budget and a 17.5% decrease from the 2001-03 legislatively approved level. It reduces the staffing level for this program from 1.0 FTE to 0.52 FTE and provides $186,938 General Fund for reimbursement of claims.

Land Use Board of Appeals – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted*	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,106,736	1,254,439	1,216,157	1,345,871
Other Funds	85,198	60,747	61,180	67,176
Total	**1,191,934**	**1,315,186**	**1,277,337**	**1,413,047**
FTE	7.00	6.50	7.00	6.50

* *Includes a $37,433 special purpose appropriation to the Emergency Board*

Program Description

The Land Use Board of Appeals (LUBA) was established in 1979 to provide prompt, professional, and efficient resolution of land use issues and to create a consistent body of land use law. LUBA retains exclusive jurisdiction to hear appeals of land use decisions made by state agencies, local governments, and special districts. Decisions of LUBA may be appealed to the Court of Appeals and ultimately to the state Supreme Court. Private parties and public agencies - including agricultural interests, developers, environmental groups, individual property owners, and state and local governments - are able to bring issues to LUBA for review. Most appeals of local land use decisions are brought before LUBA by individual citizens with the responding party being a local government unit. LUBA only obtains jurisdiction to review local government decisions for consistency with local and state land use laws after an appeal is filed. LUBA has no ability to file an appeal and has no control over the number of cases brought forward for review.

LUBA's mission is to decide appeals quickly and consistently as well as to disseminate its opinions to create a body of land use law that allows for consistent land use decision making. Prior to the establishment of LUBA, review of local land use decisions was conducted by circuit courts, resulting in delays and inconsistent interpretations of land use law in different portions of the state.

The Board consists of three hearings referees, appointed by the Governor with Senate confirmation, who are members of the Oregon State Bar. Two clerical positions perform administrative support functions. A permanent staff attorney position was provided by the Legislature in 1997 to conduct legal research and to assist with the production of final opinions and orders. A publications coordinator ensures *LUBA Reports* are published in compliance with statutory requirements. LUBA's offices are located in the Public Utility Commission (PUC) building. PUC provides accounting, personnel, and other administrative support to LUBA through an inter-agency agreement.

Revenue Sources and Relationships

LUBA's operational expenditures are supported primarily by the General Fund. Other Funds revenue is generated from the sales of *LUBA Reports*, which are issued to meet the agency's statutory obligation to publish its opinions. Revenue from these reports is estimated at $61,250 for 2003-05, about an 8% increase over revenues in each of the last two biennia. LUBA estimates it will issue five volumes to approximately 70 subscribers in 2003-05 at the current sales price of $175 per volume.

LUBA also collects a filing fee, which is transferred to the General Fund. The filing fee was last increased by the 1997 Legislature when HB 2642 set the fee at $175. Estimated revenues from this source are $62,550 in 2001-03 and $70,350 in 2003-05.

Budget Environment

ORS 197.830(14) requires LUBA to issue final written opinions on appeals within 77 days after the date LUBA receives and settles the local government record. Certain local development efforts are stalled until a case is legally resolved. Legislative policy currently states that "time is of the essence in reaching final decisions in matters involving land use and that those decisions be made consistently and with sound principles governing judicial review." (ORS 197.805)

Until recently, LUBA was seriously out of compliance with the statutory deadline for issuing written opinions. There were several reasons for this. First, in the 1990s the agency experienced a steady and sustained increase in the number of annual appeals filed, which climbed from 171 in 1990 to a high of 265 in 1997. Although this growth somewhat leveled off in the latter part of the 1990s, a backlog had developed. In addition, the issues involved in appeals became increasingly complex due to the sophistication of the arguments, the lack of case law on correctly interpreting acknowledged land use plans, and legislative changes to the basic state land use laws, adding further to the agency's backlog. Complicating the workload problem was a complete turnover of referees during 1995. The combination of these conditions resulted in only 58% of written opinions meeting the statutory deadline between 1995 and 2001. During this same period, LUBA also fell behind in its publications, which are required by ORS 197.830(17). LUBA's goal is to publish its opinions within three months after the issuance of the last opinion to be included in that volume of *LUBA Reports*. At various times, LUBA was more than one year behind in issuing these publications.

With the resources first made available to LUBA by the 1997 Legislature, the agency was able to eliminate the backlog in issuing final opinions in 2001. Almost all final opinions currently are issued within the statutory deadline. Additionally, funding for a limited duration publications coordinator for the 1999-01 and 2001-03 biennia has resulted in timely issuance of *LUBA Reports*. In addition to relieving referees from performing publication tasks that divert time from their primary function of writing and issuing opinions, this position assists the referees and the staff attorney in conducting legal research, maintains the agency's website, and is responsible for final editing and citation-checking of opinions.

The number of appeals has declined recently. The agency received 202 appeals in 2001 and expects 184 in 2002. The agency attributes this decline to the state's economic downturn. In anticipation of an economic recovery, the agency projects an increase in the number of appeals over the next three years: 200 for 2003, 210 for 2004, and 234 for 2005.

During the special legislative sessions held in 2002 to balance the state's General Fund budget, LUBA's 2001-03 legislatively adopted budget was reduced by $25,138 General Fund to reflect administrative savings and by $11,284 General Fund to reflect the funding of salary increases at approximately 75% of actual costs. The agency expects these reductions to be covered by personnel cost savings in 2001-03. HB 5100 from the 2002 fifth special session provided for an additional $45,590 General Fund to be disappropriated from the agency's budget if the January 2003 tax measure was not approved by voters. Part of this reduction will be covered by vacancy savings due to the departure of the publications coordinator in January 2003. The balance will be covered primarily by the elimination of two positions: the staff attorney and an administrative support specialist. The staff attorney position was eliminated effective February 1, 2003. The administrative support specialist position was reduced to 0.5 FTE on that date and scheduled for elimination upon the agency's filling of the publications coordinator position. In 2003-05, these staffing reductions result in estimated savings of $249,108 General Fund.

Elimination of the positions will in all likelihood result in delays in issuing written opinions. In addition, publication of *LUBA Reports* will be delayed or suspended unless the publications coordinator position is continued in the 2003-05 biennium. If LUBA cannot resolve land use appeals and disseminate its opinions in a timely manner, the main reason for its existence will be compromised.

In addition to the legislatively approved reductions, the agency's General Fund budget was reduced by $14,712 through an administrative allotment rule due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency expects to absorb this reduction primarily by purchasing fewer services and supplies for the remainder of the biennuim.

Governor's Budget

The Governor's recommended budget of $1.4 million is a 7.4% increase over the 2001-03 legislatively adopted budget and a 10.6% increase over the 2001-03 legislatively approved budget. The recommended General Fund appropriation is increased from the 2001-03 legislatively adopted level by 7.3% to a total of $1.35 million. The budget also includes $67,176 Other Funds, primarily for activities related to the publication of opinions.

The budget adds $206,690 General Fund and restores the staff attorney position (1.0 FTE) and partially restores the administrative support specialist position (0.5 FTE) eliminated as a result of HB 5100 reductions. The budget also establishes the publications coordinator position (1.0 FTE) as permanent at a cost of $93,729 General Fund and $31,243 Other Funds.

Division of State Lands (DSL) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	34,381	133,727	129,255	30,336
Other Funds	12,629,929	13,049,454	14,270,814	15,429,625
Federal Funds	904,528	1,525,308	2,472,125	1,614,737
Nonlimited	77,010,736	31,800,000	49,500,000	34,800,000
Total	**90,579,574**	**46,508,489**	**66,372,194**	**51,874,698**
FTE	75.79	74.25	80.75	81.83

The Division of State Lands is the administrative arm of the State Land Board. The Land 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 over two million acres of state lands deeded at statehood in trust for education, escheated and forfeited property, and other lands designated by statute. In managing these assets, the Board follows the constitutional standard of "obtaining the greatest benefit for the people of the state, consistent with the conservation of the resource under sound techniques of land management." By statute, related programs, such as removal-fill and wetlands, are assigned to the Division. The Division also manages the South Slough National Estuarine Research Reserve and provides support to the Natural Heritage Advisory Council.

DSL – Common School Fund Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	10,465,726	11,730,751	12,281,529	13,511,918
Federal Funds	294,998	508,248	508,248	508,248
Nonlimited	77,010,736	31,800,000	49,500,000	34,800,000
Total	**87,771,460**	**44,038,999**	**62,289,777**	**48,820,166**
FTE	65.79	68.50	68.75	71.83

Program Description

The Common School Fund is a constitutional trust created to manage the assets derived from the common school trust lands granted to Oregon by the federal government at statehood. These lands originally comprised 6% of the new state's land for the support of schools, plus land for a state university and all of the submerged and submersible lands under tidally-influenced and navigable waterways. Revenues from these lands and any associated mineral, timber, or other resource are dedicated to the Common School Fund. The state holds title to the mineral rights for approximately four million acres.

This program area consists of four units – Field Operations, Policy and Planning, Finance and Administration, and the Director's Office.

- ***Field Operations*** provides services related to land ownership, property management, and environmental regulation. The unit is responsible for 630,000 acres of range and agricultural lands in eastern Oregon; 133,000 acres of forest lands mostly in western Oregon; 800,000 acres of submerged and submersible land under navigable rivers, lakes, estuaries, and ocean bays as well as offshore land within the territorial sea; and 200 acres of industrial, commercial, and residential lands. Section staff issue leases, easements, rights-of-way, and licenses for use of state-owned uplands and waterways. Field Operations currently administers 300 waterway leases for log raft storage, marinas, houseboat and barge moorage, and various commercial operations. It also provides assistance, monitoring, and enforcement for removal-fill activities. State law requires a permit to remove, fill, or alter more than 50 cubic yards of material within the bed or banks of the state's waterways. Additional protection is provided by the Division on removal and fills of less than 50 cubic yards in essential salmon habitats. All removal-fill activities within the designated state scenic waterways must receive Division review and approval. The Division contracts with the Department of Forestry for management of state-owned forest lands.
- ***Policy and Planning*** develops long-range management plans and policies, drafts administrative rules, maintains state property records, initiates state ownership determinations including the navigability of waterways, and provides engineering and geographic information services for the agency. The Asset Management Plan, adopted by the Land Board in December 1995, provides broad policy direction on the

uses of state land, rates-of-return objectives, and policies for the purchase and sale of state assets. This section also administers the state wetlands program and includes regulatory streamlining and public information specialists.

- ***Finance and Administration*** provides budgeting, general administrative support, building management, safety services, accounting, purchasing, audit, information systems services, legislative coordination, and oversight of the Oregon Natural Heritage Program. This unit also includes the Trust Property Section, which manages forfeited and unclaimed property and probates estates left without wills and known heirs.
- The ***Director's Office*** provides overall agency direction under the jurisdiction of the State Land Board.

Revenue Sources and Relationships

Other Funds revenue for Common School Fund Programs is derived from two major sources: income from program operations and investment income. Statutory program operations generate revenue from waterway, hydroelectric, sand and gravel leases; unclaimed property dividends; removal-fill permit fees; periodic land sales; and other revenue from property holdings. Investment income is derived from the interest, dividends, and capital gains earnings from funds invested by the State Treasury according to Oregon Investment Council guidelines.

Common School Fund revenues also include receipts from timber harvests on state-owned land. The Department of Forestry projects $21 million in timber revenue for 2003-05, down $21 million from 2001-03. These revenues are based on projected sale prices and volumes that are subject to changing economic and other conditions. Revenues from timber harvests, and from other constitutional sources such as grazing, agricultural, and mineral leases, are retained in the Common School Fund as principal. Land management activities are supported by earnings from investment of the principal.

The Division is proposing a fee increase in its removal-fill permitting program. The fee was last increased in 1989. Historically, permit revenues covered 25% of the program's costs. Currently, permit fees are covering approximately 12%. For the 2003-05 biennium, removal-fill program costs are expected to be about $3.2 million and, under current law, the Division expects to receive only $0.4 million in permit fee revenue. With the proposed increase, an additional $0.4 million would be available to offset program costs.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency (EPA) support of the wetlands program, including wetlands inventory grants to local governments.

Budget Environment

Various legal and environmental factors can adversely affect the Division's ability to reduce expenses of the Common School Fund Programs. Increasing needs to balance protection, conservation, and development interests tend to raise land management costs. New legal requirements for agency programs - such as the addition of essential salmonid habitat provisions to the removal-fill law, responses to threatened and endangered species listings, and re-prioritization of efforts due to new initiatives - increase workloads and can affect timber receipts, sand and gravel royalties, and other land and water-related revenues. Lack of agency staff to actively market land leasing, sales, or investment opportunities can limit the growth of revenue from land management.

The Common School Fund Programs are involved in a legislatively directed effort to streamline the process of administering removal-fill permits to reduce duplication with the federal Section 404/10 U.S. Army Corps of Engineers permitting program. However, while streamlining may reduce requirements for applicants, it may add to the agency's workload.

Due to the agency's administration of removal-fill activities, it is an active participant in the state's efforts to restore salmon populations and improve watersheds. The Division is involved with efforts to improve removal-fill permit compliance monitoring and to verify the effectiveness of permit conditions in steelhead and salmon habitat streams. The Division also is working on development of "best management practices" for removal-fill activities and other activities relating to support of the Oregon Plan for Salmon and Watersheds.

Nonlimited expenditures represent the Division's semi-annual distribution of revenue from the Common School Fund to counties for the support of public primary and secondary schools. Prior to 1997, distributions to schools were allowed to float based on the Fund's non-equity investment earnings. Beginning in 1997, the Land Board fixed the annual distribution at $10 million plus 5% per year to cover enrollment growth and inflation. In response to a resolution passed by the 1999 Legislative Assembly, the Land Board adopted a revised investment earnings distribution policy. The new policy is based on a sliding scale for annual distributions between 2% and 5% of the Common School Fund market value as of December 31st of each year. The percentage of distribution is based on the prior year's annual growth rate in the Common School Fund's market value. The policy took effect with the 1999-00 school year.

The distribution for the 2001-02 school year was $15.6 million, to be followed by a planned distribution of $14.7 million for the 2002-03 school year (to be distributed in equal amounts in December 2002 and June 2003). At the direction of the Legislature during the third 2002 special legislative session, the Division distributed an additional $17.7 million derived from the accumulation of statutory revenues. This amount is to offset a corresponding General Fund reduction in the State School Fund. The total planned distribution of $48 million for 2001-03 is far below the 1999-01 distribution of $76 million, due to declines in the stock market as well as lower earnings. Additionally, the agency is unsure if earnings will be sufficient to make the full amount of the 2002-03 planned distribution. The market value of the Common School Fund totaled approximately $665 million as of December 31, 2002 compared to $739 million as of June 30, 2001.

The Board currently is reviewing its distribution policy to ensure a balance between growth in the Fund for future generations of students and optimal distributions in support of the current generation of students (i.e., "intergenerational equity").

Governor's Budget

The Governor's budget is a 10.9% increase over the 2001-03 legislatively adopted budget and a 21.6% decrease from the legislatively approved budget. The decrease is due to lower distributions to schools in 2003-05, by approximately $14.7 million.

Without regard to the Common School Fund distributions, the budget is a 14.6% increase over the 2001-03 legislatively adopted budget and a 9.6% increase over the 2001-03 legislatively approved budget. The budget adds the following:

- $291,388 Other Funds expenditure limitation and 2 permanent positions (2.0 FTE) for expedited environmental permitting related to the Oregon Department of Transportation's bridge and highway improvement projects;
- $291,203 Other Funds expenditure limitation and 2 limited duration positions (2.0 FTE) for waterway leasing and day-to-day rangeland management, including administration of 144 leases;
- $207,508 Other Funds expenditure limitation and 2 limited duration positions (2.0 FTE) for workload issues related to unclaimed property audits, reports, and claims;
- $175,000 Other Funds expenditure limitation for improvements to the heating, ventilation, air conditioning, and electrical systems in the Division's Salem building;
- $148,691 Other Funds expenditure limitation and 1 limited duration position (1.0 FTE) to manage Division properties in Central and Eastern Oregon and maximize revenue-raising projects that benefit the Common School Fund;
- $127,525 Other Funds expenditure limitation and 2 limited duration positions (1.33 FTE) for improved fiscal controls and public outreach in the Trust Property Section;
- $75,000 Other Funds expenditure limitation for increasing the information systems capacity through server upgrades and replacement of outdated work stations; and
- $28,309 Other Funds expenditure limitation for an increase in the rent expense for the Division's regional office in Eastern Oregon.

DSL – South Slough National Estuarine Research Reserve

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	841,964	601,385	1,224,062	1,037,534
Federal Funds	592,242	947,757	1,894,574	1,037,186
Total	**1,434,206**	**1,549,142**	**3,118,636**	**2,074,720**
FTE	10.00	5.75	12.00	10.00

Program Description

The 4,800-acre South Slough National Estuarine Research Reserve (SSNERR) is part of the U. S. National Estuarine Research Reserve System established by the Coastal Zone Management Act of 1972. The 26 estuarine sites in the national system are administered by a partnership with the states and the U.S. Department of Commerce's National Oceanic and Atmospheric Administration (NOAA). The national system was created to preserve representative estuarine types and provide opportunities for education and research.

The South Slough is a tidal inlet of the Coos estuary six miles southwest of Coos Bay. The reserve was designated in 1974 as the first national estuarine research reserve and consists of 1,000 acres of tidelands and open water surrounded by a 3,800-acre upland border. It includes five structures and seven miles of roads and trails. The SSNERR operates an interpretive center and maintains nature trails for hikers and canoeists. It also conducts a variety of research, educational, and stewardship programs.

Revenue Sources and Relationships

The main source of Other Funds revenue supporting the SSNERR is the Common School Fund, which was substituted in 1993 for one-half of the General Fund operating budget. In recognition of the SSNERR's educational opportunities for K-12, the 1997 Legislature added it to the statutory definition of "school lands" to secure Common School Fund dollars for the operation and maintenance of the SSNERR property. The 1997 Legislature then replaced all General Fund in the SSNERR's budget with Common School Fund revenues and transferred ownership of the reserve to the Common School Fund. Other Funds revenues also include grants, donations, and service charges.

Federal Funds are received through NOAA in the form of grants for operations and special projects. State match rates generally range between 30 to 50%, depending on the individual grant. The SSNERR's operating budget, tideland property valuation, and donations all qualify as match. The SSNERR has statutory authority to apply for grants and regularly submits such requests through NOAA's Office of Coastal Resource Management. Federal revenues for the ongoing operations grant are projected to continue at previously authorized levels.

Budget Environment

An estimated 29,000 individuals visit the reserve annually, including school-age children who participate in educational program offerings. The reserve also serves as a summer work site for Job Training Partnership Act and Youth Conservation Corps programs. The SSNERR expects to experience a continued increase in visitor use, especially from school field trips and from the developing ecotourism industry in the South Coast region.

The SSNERR also provides services to the state's higher education system through a Memorandum of Understanding with the University of Oregon's Institute of Marine Biology for sharing administrative resources and laboratory facilities. Reserve staff provide technical and logistical support to visiting scientists and scholars conducting research.

Services are provided at the SSNERR by eight permanent staff positions. This staffing is augmented by the use of limited duration positions, volunteers, seasonal employees, and temporary staff. Temporary positions are funded through grants and cooperative agreements to provide support for education, research, and stewardship programs. The temporary staffing and number of volunteers vary with the seasons and the nature of grant projects.

The 2001-03 legislatively adopted budget represents limitation for only the first half of the biennium. The 2001 Legislature withheld second-year limitation due to concerns regarding fiscal management within the program. The Legislature directed the Division to request the second-year limitation upon reporting to the Emergency Board on the SSNERR's 2001-02 fiscal activity. The Emergency Board approved limitation for the second half of the biennium at its April 2002 meeting when the Division reported on the accounting and budgeting improvements in the program.

Governor's Budget

The Governor's budget is a 33.9% increase over the 2001-03 legislatively adopted budget and a 33.5% decrease from the legislatively approved budget. The increase is primarily due to the adoption of only a one-year budget for the SSNERR during the 2001 regular session. The decrease from the legislatively approved level, which reflects the two-year budget, primarily results from the phase-out of one-time federal grants for renovation of the SSNERR's facilities and a one-time purchase of property during the 2001-03 biennium.

The budget adds 2 limited duration positions (2.0 FTE) and $217,703 Federal Funds expenditure limitation. This addition would continue limited duration positions that were established for the 2001-03 biennium by the 2001 Legislature. One position performs functions in the System-Wide Monitoring Program and contributes estuary information to the national database in North Carolina. The other position provides information and related services to SSNERR visitors. It also recruits and coordinates volunteers.

The budget adds $3,611 Other Funds expenditure limitation and $7,626 Federal Funds expenditure limitation to reclassify a position to a Natural Resource Specialist 3 to align it with other SSNERR positions that have similar duties.

DSL – Natural Heritage Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	34,381	133,727	129,255	30,336
Other Funds	391,580	1,309	1,309	1,354
Federal Funds	17,288	69,303	69,303	69,303
Total	**443,249**	**204,339**	**199,867**	**100,993**
FTE	0.00	0.00	0.00	0.00

Program Description

The state's Natural Heritage Act was passed by the 1979 Legislature to create a discrete and limited system of natural heritage conservation areas to represent the full range of Oregon's natural heritage resources. The Natural Heritage Program includes the development of the Oregon Natural Heritage Plan, maintenance of a natural heritage data bank, and the registration and dedication of natural heritage conservation areas. The Act also requires that all conservation efforts be voluntary on the part of the land owner or public land manager and that resources be protected, whenever feasible, on public lands allocated primarily to special non-commodity uses (such as parks, preserves, and wilderness areas).

The 17-member Natural Heritage Advisory Council (NHAC) assists the State Land Board in implementing the mandates of the Act. The Division is responsible for maintaining a council office and a data bank of significant natural heritage sites areas to guide decisions on project planning and land management. The data bank assists governmental agencies, private consultants, and individuals with obtaining information about the known location and extent of threatened and endangered species as well as unique or sensitive natural areas.

The NHAC periodically identifies areas that qualify for registration as a natural heritage area. Areas used in commodity production are avoided. Landowner written permission is required before any private land can be added to the register. Registration is only an acknowledgment that the site is one of significant natural character and makes the site available for possible future dedication or other voluntary protection. State law allows any private individual or organization owning a registered natural area to voluntarily dedicate that area as a natural heritage conservation area with the State Land Board. Public agencies can dedicate lands, following public notice and hearing. Procedures for the dedication of lands owned by the State of Oregon as natural heritage conservation areas are required to be established by the Land Board, Board of Forestry, Fish and Wildlife Commission, Transportation Commission, Board of Higher Education, and the Parks and Recreation Commission, with the advice of the Natural Heritage Advisory Council.

The NHAC also is responsible for administration of the Threatened and Endangered Invertebrate Program and works cooperatively with the U.S. Fish and Wildlife Service to conduct studies and recovery actions on threatened and endangered invertebrate species within the state.

Revenue Sources and Relationships

The Natural Heritage Program receives the only General Fund provided to the Division of State Lands. Federal Funds are received primarily from the U.S. Fish and Wildlife Service for research and special projects on invertebrates and management techniques to protect rare, threatened, and endangered species.

Budget Environment

As of July 2002, the statewide register of natural heritage resources contained 93 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 22 sites from July 1998, when the register contained 71 sites.

Program operations historically were provided through a contract between the NHAC and The Nature Conservancy. During the 1999-01 interim, the Emergency Board directed the Division to investigate options for moving the database management function from a contract with The Nature Conservancy to a state agency, preferably the Division or Oregon State University. In June 2002, the agency transferred responsibility and funding for management of the program to the Natural Resources Institute at Oregon State University. The Division continues to provide administrative support to the NHAC.

The Division's General Fund budget for the Natural Heritage Advisory Council was reduced by $4,472 during the 2002 special legislative sessions. In addition, as a result of the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03, the agency's General Fund was reduced by $1,564 through an administrative allotment rule. Of the legislative reductions, $1,097 is attributable to the failure of Measure 28 in January 2003. The estimated 2003-05 roll-up effect of the legislative reductions is about $5,000. Since this is about 15% of the NHAC's budget, the reduction may affect the NHAC's ability to comply with its statutory requirements.

Governor's Budget

The Governor's budget is a 50.6% decrease from the 2001-03 legislatively adopted budget and a 49.5% decrease from the legislatively approved budget. These decreases reflect the transfer of the program to the Natural Resources Institute at Oregon State University. The remaining General Fund budget reflects the costs of the Division's administrative support of the NHAC.

DSL – Oregon Wetlands Revolving Fund

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	599,134	350,000	350,000	350,000
FTE	0.00	0.00	0.00	0.00

Program Description

The Oregon Wetlands Mitigation Bank Revolving Fund Account was established by the 1987 Legislature to provide financial resources to acquire wetland banking and wetland mitigation sites; to accomplish wetland restoration, enhancement, and creation; and to cover administrative costs. The first mitigation bank was established in Astoria during the 1985 biennium with a federal grant.

A mitigation bank is a wetland site created or restored by a public or private entity to establish wetland value credits. The credits represent biological values expressed in the form of dollars. Any entity proposing to fill wetlands must provide mitigation by restoring, creating, or enhancing wetlands or by purchasing credits from an existing mitigation bank. Legislation passed in 1995 allowed private mitigation banks to be established under rules adopted by the Land Board.

Revenue Sources and Relationships

The Wetland Mitigation Bank Revolving Fund Account allows for payments, called "Payment-To-Provide" mitigation funds, that can be used by removal-fill applicants with permissible projects that have a wetland impact, but who cannot perform the required mitigation. The funds in the account are then used to create, restore, or enhance wetlands in the region of the permitted impact, if possible. After a two-year period, the funds can be used anywhere in the state for wetland creation, restoration, or enhancement.

Budget Environment

Through the spring of 2000, a total of ten projects were approved and completed using $385,000 of account proceeds. During the 1999-01 interim, the Division identified eight other potential projects for a total cost of $578,000. As a result, the Emergency Board authorized a $600,000 Other Funds expenditure limitation increase for the Wetlands Mitigation Bank in June 2000 to accommodate these additional projects. In the 2001-03 biennium, four projects totaling $294,951 have been funded.

Governor's Budget

The Governor's budget continues the program at the 2001-03 legislatively adopted and approved levels.

DSL – Capital Improvements/Common School Fund

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	331,525	366,009	413,914	528,819
FTE	0.00	0.00	0.00	0.00

Program Description

The Division of State Lands owns and manages property as assets of the Common School Fund. The Land Board adopted an Asset Management Plan in 1995 that includes strategies for enhancing the revenue producing capability of Common School Fund assets through capital improvements and property maintenance. Expenditures in this program include small infrastructure design and construction projects, facilities rehabilitation, general maintenance and repair, fire suppression, land rehabilitation, and response to environmental hazards.

Revenue Sources and Relationships

The Division's capital improvement expenditures are financed by Common School Fund revenues.

Budget Environment

As a property manager, the Division must maintain assets to enhance their revenue production and to protect and improve the resource productivity. Examples of capital improvement expenditures include the reinvestment of a portion of grazing lease fees for rangeland health and productivity improvements.

At its April 2002 meeting, the Emergency Board approved additional expenditure limitation to cover unplanned fire costs incurred by the Division. During 2001-03, the Division completed negotiations with the federal Bureau of Land Management to provide fire suppression services for central and eastern Oregon rangelands. This should provide the agency with more certainty regarding the state's costs of fire suppression and rehabilitation resulting from wildfires.

Governor's Budget

The Governor's budget is a 44.5% increase over the 2001-03 legislatively adopted budget and a 27.8% increase over the 2001-03 legislatively approved level. The budget adds $150,000 Other Funds expenditure limitation for fire suppression and rehabilitation costs on Oregon rangeland.

Oregon State Marine Board (OSMB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	17,529,970	17,347,185	17,588,863	22,202,705
Federal Funds	3,110,021	3,780,505	5,056,029	5,039,933
Total	**20,639,991**	**21,127,690**	**22,644,892**	**27,242,638**
FTE	35.00	38.00	38.00	38.00

The Oregon State Marine Board was established in 1959 and is responsible for registering and titling all recreational boating vessels in the state. The Board consists of five members appointed by the Governor for four-year terms. The Marine Board's budget is comprised of three separate program areas. These programs are dedicated to the Board's mission of boater safety, education, and access in an enhanced boating environment.

Revenue Sources and Relationships

All agency programs are funded by three major revenue sources: registration and title fees (39%); marine fuel taxes (40%); and federal funds (19%). The agency receives no General Fund support or Lottery Fund allocations. A small amount (2%) of revenue is received from outfitter and guide registration, mandatory education and late penalties.

The motorboat fuel tax revenue is estimated to be $10,915,952 during the 2003-05 biennium. Each year the Department of Administrative Services certifies the amount of motor vehicle fuel taxes imposed during the preceding fiscal year on fuel purchased and used to operate motor boats. The amount, less refunds for commercially used motor boats, is transferred to the Marine Board's Boating Safety, Law Enforcement and Facility Account. The estimate is based on the results of the Oregon Motorboat Gasoline Use Survey that is conducted every four years to determine the amount of fuel tax to be transferred from the Department of Transportation. The next survey is due in spring 2003.

Registration fees are set by statute and vary based on type and size of vessel. Registrations are valid for two years. A boat owner must also secure a one-time certificate of title from the Marine Board. The Board sets the title fee by rule, not to exceed seven dollars. With current fees the agency projects total fee revenue at $6,003,947 or less than 1% increase from the 2001-03 legislatively adopted budget. The projection leaves the agency $1.3 million short of the revenue required to maintain current services. The agency is proposing legislation to change the present tiered fee system. The proposed system is based on a flat fee of $3/foot for two years; one time title fees adjusted to $30. Increased fees will generate $5 million additional revenue.

Boat Title and Registration Fees

Titling Fees:	**Current Fees**	**Proposed Fees**	**Registration Fees:**	**Current Fees**	**Proposed Fees**
Oregon Title Transfer; Oregon Title; new boats or Out of State Transfers; Lost Title without change of ownership	$ 7	$30	Motorboat up to 11'11" with < 30hp motor	$15	$3/ft
Lost Title replacement w/change of owner	$10	$10	Motorboat up to 11'11" with 30hp or more – includes Personal Watercraft of any length	$25	$3/ft
Duplicate Certificate of Number (reg. card)	$ 3	$15	Motorboat or sailboat 12' to 15'11"	$21	$3/ft
Duplicate Decals and Cert. of Number	$ 3	$10	Motorboat or sailboat 16' to 19'11"	$25	$3/ft
Title & Plate for Boathouse/Floating Home	$20	$20	Motorboat or sailboat 20' and over in foot or partial foot	$30 + $2/ft	$3/ft

2003-05 Fee Revenue Estimate

Title Fees	$496,043	$1,659,095	Net Increase of $1,163,052
Registration Fees	$4,862,912	$8,661,986	Net Increase of $3,799,074

Total Revenue	**$5,358,955**	**$10,321,081**	**Total Net Increase**	**$4,962,226**

Federal Funds are received from the U.S. Coast Guard's Recreation Boating Safety (RBS) grant program ($2,358,778), the Clean Vessel Act (CVA) program ($1,051,619), and the Boating Infrastructure Grants (BIG) program grants ($1,629,536) are obtained through the dedicated Aquatic Resources Trust Fund with revenues from federal motorboat gasoline taxes and excise taxes on sport fishing equipment. The Coast Guard restricts use of RBS grants to boating safety programs and requires a 50-50 state match. CVA funds were first made available in 1994 for funding vessel waste pump out facilities and dump stations to reduce the effects of untreated sewage from boats in the state's waters. CVA grants require a 25% state match. BIG funds were authorized in 1998 as part of the Sport Fishing and Boating Safety Act and require a 25% state match. The BIG funding program has two tiers. Tier 1 funds are base grants set at $100,000 per state annually and Tier 2 grants are competitive with approximately $4 million available nationally each year. Department of Fish and Wildlife uses Sport Fish Restoration funds to pay the Marine Board for technical assistance on cooperative projects. Beginning in 2003-05 these funds will be included in the Other Funds calculation of OSMB's budget.

Governor's Budget

The Governor's recommended budget of $27.2 million is $4.6 million or approximately 20% more than the 2001-03 legislatively approved budget. The recommended budget is dependent on passage of the fee increase to addresses a backlog of maintenance, repair and upgrades at boating access facilities; to improve law enforcement programs; and to initiate a campaign to promote safe boating. Specific Governor's recommendations are discussed under each program unit.

OSMB – Administration and Education

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	3,312,549	3,727,603	3,886,326	4,617,586
Federal Funds	100,878	113,405	113,405	113,405
Total	**3,413,427**	**3,841,008**	**3,999,731**	**4,730,991**
FTE	20.84	22.84	22.84	22.84

Program Description

The Administration and Education program is responsible for vessel titling and registration activities including floating homes and boathouses, outfitter and guide registration, and ocean charter boat licensing. The program also administers state boating laws, develops waterway management plans, serves as liaison with other government units, conducts boating accident analyses and boater surveys, coordinates the Adopt-a-River program, and provides the agency's central business functions. Education activities include implementation of mandatory boater education, coordination of statewide water safety school programs, development and distribution of safe boating promotional materials, and the production of public information materials for distribution to the media.

Budget Environment

The increasing popularity of water-based outdoor recreational activities in Oregon continues to challenge the Administration and Education Program. Over 195,000 boats are currently registered with projections indicating continued growth in boater use of the state's waterways. Other non-traditional boating activities, such as personal watercraft (jet skis) and sail boarding, are expected to bring additional challenges to waterway management. In 1988, for example, 800 personal watercrafts (PWC) were registered with the Marine Board; in 2000, the number of registered PWCs exceeded 14,000. The combination of increases in population, in the number and types of craft being used, and in the number and range of conflicts between users is creating additional boating and safety education requirements. Adequate funding to support all agency programs and boating safety is the number one priority of the program unit. Factors creating a gap between revenues and expenditures include inflation, flat boat registration counts, and drought conditions. The number of boating fatalities involving persons who don't wear a life jacket is the cause of over 90% of all fatal accidents. A new life jacket wearing campaign and is being proposed to address deaths caused by failure to wear a life jacket as well as boating while intoxicated.

Governor's Budget

The Governor's recommended budget of $4.7 million is $731,260 or 18% more than the legislatively approved expenditure level. The recommended budget recognizes a reduction of $236,395 resulting from insufficient projected revenues to cover program expenditures. The Governor recommends approval of a decision package to increase fee revenues, raising revenue for this program by $1.2 million. The revenue provides resources to maintain current services; maintain an adequate ending balance; and fund the following decision packages:

- $236,395 and a Public Service Representative 3 (1.0 FTE) to restore reductions for processing titles, registrations, and boating safety education publications;
- $306,000 for a targeted public service education campaigned designed to encourage life jacket use among Oregon boaters and reduce annual boating deaths;
- $76,644 for technology upgrades; and
- $34,580 for the biennialized costs of reclassifying a Management Analyst 2 to Principal Contributor 2 approved by the Emergency Board in October 2002.

The remaining increases reflect applying the standard inflation rate for services and supplies and for increases in the state government service charge ($61,166) and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, mass transit fees, and merit increases ($252,870).

OSMB – Law Enforcement

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	7,157,938	7,987,187	8,015,912	9,512,230
Federal Funds	2,142,159	2,185,685	2,185,685	2,245,373
Total	**9,300,097**	**10,172,872**	**10,201,597**	**11,757,603**
FTE	3.83	4.83	4.83	4.83

Program Description

By statute, funding of law enforcement activities is the first priority for the Marine Board after administrative expenses are covered. The Law Enforcement program provides on-water safety patrol and boating law enforcement for 300 miles of coastline, over 5,500 miles of navigable rivers, 1,400 named lakes, and 889 square miles of inland water. Services are provided through contracts with 31 county sheriffs providing coverage in 32 counties and the Oregon State Police providing additional statewide coverage with emphasis in the four counties not covered by contracts with county sheriffs. The program also provides patrol boats and specialized enforcement equipment, develops and offers basic and advanced training for county marine patrol officers, maintains a marine law enforcement data base and reporting system, performs contract administration functions, and retains responsibility for the waterway marking system.

Revenue Sources and Relationships

Funding of the Law Enforcement program is from registration and title fees, marine fuel taxes, and the U.S. Coast Guard Recreation Boating Safety grants. U.S. Coast Guard funding has been static. No significant change in federal funding is anticipated until after 2003 when the Transportation Equity Act for the 21st Century is scheduled for reauthorization.

Budget Environment

Law enforcement contracts are continued at the current level with a 3.9% inflation adjustment for 90% of county contracts and 3.5% for the remaining 10% of county contracts. Increases in the cost of personnel, benefits, fuel, insurance, and other items outpace the standard rate of inflation by an estimated 4%. In the past, some county's contributions have increased to maintain services at the local level. Without an increase in funding for marine law enforcement, services will be reduced or reductions will need to be made to other programs. The Marine Board completed a "*Study and Analysis of the Delivery of Marine Safety and Enforcement Services to Oregon Boaters*" identifying a number of gaps in boater law enforcement relating to geographic area patrol, temporary patrol coverage, education, training, marine theft, and navigational aids additions or replacements. Complaints and requests for rules relating to non-motorized boating are increasing by impacting law enforcement services. In recent years, more than half of Oregon boating fatalities were attributed to non-motorized boaters. Another significant issue for this program is the reauthorization of the U.S. Coast Guard's Recreational Boating Safety (RBS) grant program in 2003. Federal aid contributes over $2.2 million to support the marine law enforcement program.

Governor's Budget

The Governor's recommended budget of $11,757,603 for marine law enforcement is $1,556,006 or 15% higher than the 2001-03 legislatively approved expenditure level. The recommended budget recognizes a reduction of

$590,988 resulting from insufficient projected revenues to cover program expenditures. The Governor recommends approval of a decision package to increase fee revenues, raising revenue for this program by $1.7 million. The Governor recommends an increase of $737,543 in special payments to county sheriffs and Oregon State Police to maintain current services for marine patrols and capitol outlay. The increased special payment is the equivalent of 15,700 marine patrol hours of service or approximately of 4 to 5 FTE. The Governor also recommends approval of a $966,202 decision package to provide expenditure authority for additional service provider contracts to begin addressing the gaps existing in marine safety and enforcement services statewide including additional patrol and training for officers. Also recommended by the Governor is $41,284 for technology upgrades in this program. The remaining increases reflect applying the standard inflation rate for services and supplies; and increases in the state government service charges ($282,097 Other Funds and $59,688 Federal Funds); and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, mass transit fees, and merit increases ($60,180 Other Funds).

OSMB – Facilities Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	7,059,483	5,632,395	5,686,625	8,072,889
Federal Funds	866,984	1,481,415	2,756,939	2,681,155
Total	**7,926,467**	**7,113,810**	**8,443,564**	**10,754,044**
FTE	10.33	10.33	10.33	10.33

Program Description

The Facilities program provides for the maintenance and improvement of boating facilities throughout the state. The Marine Board provides technical and financial assistance for local governments and state agencies to acquire, develop, improve, and rehabilitate public boating facilities. Projects eligible for Board funding include boat launch ramps, parking, restrooms, courtesy docks, transient tie-up facilities, and other boating related facilities. Grants rely on partnerships and the leveraging of other financial resources such as federal funds, private funds and donations, and other local and state funds. Priorities for funding are established in the Board's Six Year Boating Facilities Plan which identifies $20 million in unmet boating access needs statewide. The federal Clean Vessel Act (CVA) program targets water quality protection through the provision of facilities for boat pump out and dumping of waste.

The Board's Maintenance Assistance Program provides financial support for local governments and the Oregon Parks and Recreation Department for the maintenance and operation of boating facilities in park areas. The Board also provides engineering services for local governments and state/federal agencies lacking the specialized skills needed to design and build boat facilities.

Revenue Sources and Relationships

The Facilities program revenue sources include registration and title fees, marine fuel taxes, and the federal Clean Vessel Act. The Marine Board expects to receive federal grants from the Clean Vessel Act totaling slightly over $1 million in 2003-05. These grants are awarded competitively on a 75% federal to 25% state matching basis. The Marine Board also expects to receive federal grants from the Boating Infrastructure Grants Program totaling approximately $1.7 million, which are also authorized on a 75-25 match ratio. Most of the projects approved for 2001-03 funded by the new federal Boating Infrastructure Grants (BIG) for non-trailerable boating facilities will not actually begin until sometime in 2003-05 due to permit timelines. Out of $1.6 million in BIG funds budgeted for 2003-05, less than $600,000 is estimated for new grants.

Budget Environment

This is one of the few discretionary areas that the Board has to make reductions without adversely impacting mandated services in its business, education, and law enforcement/safety programs. The Marine Board leverages a sizeable amount of state dollars with outside sources from federal agencies, local governments, and others. A significant issue for continued funding to maintain and improve public boating facilities and public access to Oregon's waterways is reauthorization of federal aid in 2003. The Clean Vessel Act (CVA), the Boating Infrastructure Grants (BIG), and the Sportfish Restoration Program are subject to reauthorization in 2003. Additionally, because current revenues are not sufficient to maintain current program levels, an adjustment in title and registration fees is critical to ensuring continuation of the program.

Governor's Budget

The Governor's recommended budget of $10,754,044 for the Facilities program is $2.3 million or 27% higher than the 2001-03 legislatively approved expenditure level. The recommended budget recognizes a reduction of $485,923 resulting from insufficient projected revenues to cover program expenditures. The Governor recommends approval of a decision package to increase fee revenues, raising revenue for this program by $2 million. The revenue provides resources to maintain services and fund the following decision packages:

- $485,923 to restore the amount of grant funds available for maintenance and improvement at boating facilities and public access sites statewide;
- $1,900,000 to enhance facility grant funding for the 2003-05 biennium;
- $51,449 for technology improvements; and
- $11,969 for the biennialized costs of position classification adjustments approved by the Emergency Board in October 2002.

The remaining increases reflect applying the standard inflation rate for services and supplies and for increases in the state government service charge ($179,348 Other Funds) and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, mass transit fees, and merit increases ($145,190 Other Funds).

State Parks and Recreation Department (OPRD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	89,176	0	0	0
Lottery Funds	41,189,960	45,768,481	50,887,866	51,537,233
Other Funds	59,268,208	72,640,204	77,374,255	78,128,452
Federal Funds	3,056,870	8,782,811	9,548,033	9,128,886
Nonlimited	1,925,901	3,735,328	3,735,328	3,866,065
Total	**105,530,115**	**130,926,824**	**141,545,482**	**142,660,636**
FTE	466.37	509.62	509.62	530.82

Program Description

The State Parks and Recreation Department (OPRD) is under the direction of a seven-member Commission. The Department operates the state's system of 230 parks and related recreational 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 Department is also designated as the State Historic Preservation Office and oversees activities of the Oregon Heritage Commission and Oregon Pioneer Cemetery Commission. In addition, the Department manages Natural Resource Lottery Funds programs including local park development grants; state park land acquisition; operations and maintenance; the parks-prisons inmate work program; state park facilities; and development projects.

The Department manages parks lands covering 94,385 acres. These include 53 campgrounds, 171 day-use areas, 478 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 historic inns.

Revenue Sources and Relationships

In November 1998, voters approved Measure 66 constitutionally dedicating 15% of the net proceeds of Oregon's lottery revenues to be deposited into a Parks and Natural Resources Fund until the year 2014 when it will be re-referred to the voters. Fifty percent of the Natural Resource Fund, estimated at $98 million for the 2003-05 biennium, is to be distributed for the purpose of financing the protection, repair, operation' and creation of state parks, ocean shore and public beach access areas, historic sites, and recreation areas. For 2003-05, these Lottery Funds represent 38% of total revenue in the Department's budget.

Park user fees represent 20% of the total budget. User fees are expected to generate $32 million 2003-05 without a fee increase, $2 million more than the 2001-03 biennium. The increase is the result of increased overnight camping and special site utilization (such as yurts, cabins, teepees, etc.) and day-use fee park expansion. The other major source of Other Funds revenue is from recreational vehicle registration fees (RV Fee). RV fees are shared 30% by the counties and 70% by the state. For 2003-05, the RV Fee is expected to produce $24.5 million, $17.1 million for the state parks system and $7.4 million for transfer to counties. The Legislature also created a "salmon" license plate that has a premium surcharge above the standard license plate fees. The proceeds from the sale of these plates are to be divided equally between state parks and salmon habitat restoration needs. OPRD anticipates receiving over $776,505 in the 2003-05 biennium from the salmon license plate.

Other dedicated revenue sources include $4.7 million from the Oregon Department of Transportation State Highway Fund for roadways and rest area maintenance, $1.2 million from the Marine Board for boater facility maintenance and rehabilitation, and $3.8 million from the All-Terrain Vehicle fuel tax revenues. 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 $9.1 million federal funding from the Land and Water Conservation Fund – National Park Service ($3.9 million), Historic Preservation ($2 million), the Recreational Trails Program ($1.6 million, part of the Transportation Equity Act for the 21st Century – TEA21), and $1.5 million from miscellaneous other sources of federal funds for project grants.

Budget Environment

The Department is challenged to balance rates and fees for park users at an affordable level for a diverse population with rising costs of doing business. While the constitutionally dedicated Lottery Fund revenues guarantee the Department a solid source of funding, recent economic forecasts predict level growth. During the 2001-03 biennium the Department analyzed the fee structure and reported to the Emergency Board in October 2002. The report concluded that restructuring the application of fees would generate up to $2 million more per biennium without a fee rate increase. The Department's ability to maintain current services is dependent on the amount of revenue generated from these sources keeping pace with increases in the cost of doing business. Current services continue to invest in facility maintenance and repair, land acquisitions, and local park grants. Since 1999, the Department has invested over $50 million in maintenance, repair, and upgrades to existing state parks, acquired over 3,000 acres of additional park land, and issued more than 97 local park grants.

The Legislature directed the Department to develop a plan to convert to the Statewide Financial Management System (SFMS) during the 2001-03 biennium. The first phase creates an infrastructure to connect to parks electronically in locations around the state and converts the financial systems to the State Financial Management System. Phase one is expected to be completed by the end of the 2001-03 biennium. The second phase of a two-phase technology project is planned for 2003-05 to complete implementation of a Point of Sale system. Funding for the second phase will come from the sale of Certificates of Participation (COPs).

The Department is proposing legislation to extend background checks to all employees including volunteers. The agency has experienced three instances in the past few years where an employee's criminal history was brought to management's attention after hiring. Since families with children visit parks frequently, the agency would like to have the ability to provide greater assurance that staff has no history of criminal behavior.

Governor's Budget

The Governor's recommended budget is $142.6 million total funds. This is $1.1 million or 0.8% more than the 2001-03 legislatively approved level. The recommended budget provides resources to:

- Continue the financial management system project begun during the 2001-03 biennium. The second phase of the project will complete the Point of Sale system. The project will be funded by proceeds from the sale of Certificates of Participation that will be repaid with Lottery Funds.
- Begin Phase I development of a state park in Washington County.
- Replace aging equipment.
- Continue state historic preservation staffing enhancements from the 2001-03 biennium.
- Fund Geographic Information Systems equipment and software.
- Fund relocation costs associated with moving the Salem Headquarters Office to the new Natural Resource Building in the Capitol Mall.

Specific Governor's recommendations are discussed under each program unit.

OPRD – Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	8,316,300	9,218,353	9,947,823	9,211,622
Other Funds	10,222,905	16,453,014	18,177,355	15,086,006
Federal Funds	0	17,863	17,863	21,777
Total	**18,539,205**	**25,689,230**	**28,143,041**	**24,319,405**
FTE	62.25	80.00	77.00	82.35

Program Description

The Administration program includes four divisions:

- ***Directors Office*** (5.0 FTE) consists of five positions including the Director, Assistant Director for Administration, an Executive Assistant, internal auditor, and support staff. The Office is responsible for overall agency management; support of Commission activities; coordination with the Governor, Legislature, and other government entities; and development of broad policy direction. The Director's office works with the Historic Preservation Advisory Committee, the Oregon Heritage Commission, the Recreational Trails Advisory Council, and the non-governmental, non-profit Oregon State Parks Trust.

- ***Personnel and Safety Services*** (7.0 FTE) supports the Department on all personnel and law enforcement issues including recruitment, labor relations, and collective bargaining. The Division provides safety services through risk management, workers' compensation, safety for success, property and visitor liability, and the safety review board.
- ***Financial Services*** (19.0 FTE) is responsible for the biennial budget development and execution; coordination of Secretary of State audits, centralized accounting and payroll functions and contract management for the agency and provides centralized business services including purchasing, fleet management, administrative rules, recycling, and building management.
- ***Information Services*** (13.5 FTE) provides planning, development, and support for all of the Department's business technological applications including the installation, standardization, and operation of the Department's desktop and laptop computers, statewide network, and internet systems, and operation of the automated reservation system.
- ***Reservations Northwest*** (26.85 FTE) is a reservation booking service that started operations in January 1996. The call center books reservations for 26 Oregon state parks, 21 Oregon state special facility areas, and 3 Bureau of Land Management parks. The reservation system allows customers to reserve campsites by telephone or Internet up to 9 months in advance. The system also gives customers the ability to make arrangements to stay at multiple locations throughout Oregon. The Reservations Northwest program also supports the Parks Information Center which provides information on availability of campgrounds and facilities, volunteer programs, special events, publications, ATV and other services provided by the Department.
- *Public Services* (11.0 FTE) is responsible for marketing, beach safety programs, volunteer coordination, park brochures and coordination of media relations.

The funding for these programs is from park user fees and Lottery Funds.

Budget Environment

The Department is under the direction of a new Director hired by the Commission in July 2000. Shifting workloads and increased responsibilities resulted in a realignment of programs. The Department's organizational structure was reviewed and approved by the Emergency Board in November 2001. The 2003-05 budget aligns expenditures with the new program units. The State of Washington ended its participation in the Department's Reservations Northwest call center during the 2001-03 biennium. The budget reflects downsizing the service unit from this change.

Governor's Budget

The Governor's recommended budget of $24 million is $3.9 million or 13.8% less than the 2001-03 legislatively approved expenditure level. Most of the reduction is the phasing out of $8.1 million for one-time costs in the 2001-03 biennium related to the first phase of the Financial Management System and other technology upgrades. The recommended budget also recognizes a $405,718 revenue reduction due to the discontinued contract with the State of Washington for Reservations Northwest, a reduction of $151,817 in debt service costs, and the impact of a $7,629 Lottery Fund reduction as a result of Governor Kitzhaber's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above.

The recommended budget adds $2 million to purchase professional services to develop Phase 2 of the Financial Management System. The policy package uses $1.25 million Other Funds in proceeds from the sale of COPs and $815,050 in Lottery Funds. An increase of $305,785 Lottery Funds is recommended to add two information specialists (1.50 FTE) to support a Geographic Information System. One of the positions is proposed to be phased in during the second year of the biennium. The recommended budget adds increased expenditure limitation for rent and one-time moving costs to the new North Mall building of $498,417 Lottery Funds. The Governor's budget recommends converting temporary position expenditure limitation to 13 seasonal positions (7.59 FTE) to handle workload fluctuations at Reservations Northwest and insure compliance with the Department of Administrative rules concerning the use of temporary appointments. The action would shift $303,557 from services and supplies to personal services and result in no netexpenditureincrease. The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charge at $1.1 million Lottery Funds and $0.2 million Other Funds, and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $534,726 Lottery Funds.

OPRD – Heritage Conservation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	1,062,549	1,474,162	1,521,584	2,116,155
Other Funds	48,236	200,067	200,067	206,880
Federal Funds	1,082,644	1,870,590	1,878,021	2,092,424
Total	**2,193,429**	**3,544,819**	**3,599,672**	**4,415,459**
FTE	10.40	14.50	14.50	14.50

Program Description

- The ***State Historic Preservation Office*** (SHPO) (13.25 FTE) manages and administers all federal and state programs for historic and archeological resource planning and preservation. The program also assists with the development and interpretation of historic and cultural resources in the park system. The Office consists of eight positions, including the Oregon Heritage Commission staff position. Staff administer the federal grant-in-aid program and seven other federal programs under the National Historic Preservation Act. The Office also manages four state programs: the Covered Bridge Rehabilitation and Maintenance Program, in conjunction with the Department of Transportation; the Archeological Permit Program; the Pioneer Cemetery Commission; and the Special Assessment of Historic Properties Program.
- The ***Oregon Heritage Commission*** (1.25 FTE) is the primary state agency for coordination of the state's heritage activities. The Commission, created in 1995, consists of nine voting and eight ex-officio members. The Commission is charged with establishing and implementing an Oregon Heritage Plan for the purpose of coordinating heritage conservation and avoiding duplication among various interest groups. The Commission coordinates statewide anniversary celebrations, encourages heritage tourism, maintains an inventory of state-owned cultural properties, and coordinates celebrations during the fourth week of Asian American Heritage Month.

Revenue Sources and Relationships

Over 22% of the Department's Federal Funds are received through the State Historic Preservation Office. About half of the Federal Funds are provided in the form of grants through the federal grant-in-aid program for historic districts and properties on the National Register of Historic Places. Grants are awarded on a reimbursable basis and require at least a 40% state match. Owners of property on the National Register can also apply for a fifteen-year property tax freeze through SHPO. Other funding for these programs is from revenue from archeological permit sales and Lottery Funds.

Budget Environment

Implementation of the adopted Oregon Heritage Commission plan is dependent on availability of resources. The *Heritage Needs Assessment*, published in 1998, identifies that $40 million is needed to fund specific projects. It is expected that the plan will reduce duplication and promote efficiencies in the conduct of state heritage activities.

The State Historic Preservation Office workload is driven by the number of applicants for listings on the National Register, applicants for the grant-in-aid program, archaeological permits, and by the number of federal projects requiring review annually (1,800/year in 1999-01) for potential impacts on historic and cultural resources.

Commemorative activities to recognize the Lewis and Clark expedition through Oregon are being scheduled throughout the state.

Governor's Budget

The Governor's recommended budget of $4.4 million is $0.8 million or 24% higher than the 2001-03 legislatively approved expenditure level. The recommended budget adds $317,338 Federal Funds to continue three limited duration positions (2.0 FTE) to assist with meeting federal historic preservation requirements and to support professional staff. The package uses lottery funded in-kind services to provide match for Federal Funds. Also recommended is $132,000 Lottery Funds to increase the construction grant program to $250,000 allowing the agency to begin targeting threatened resources such as Classic Revival houses. Current grants are limited to $20,000/property with an average award of about $9,000. The Governor's budget recommends $84,500 Lottery Funds to initiate a cemetery preservation grants program, regional workshops, a traveling historic cemeteries exhibition, and the purchase of "registered historic cemetery" signs. An additional $300,000 is recommended for funding grants to local governments and not-for-profit organizations commemorating the Lewis and Clark Bicentennial. The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $13,783 total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $20,792 total funds.

OPRD – Grants

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	2,879,156	5,113,351	7,136,686	5,280,000
Other Funds	3,258,854	5,952,115	8,992,572	8,264,115
Federal Funds	1,292,784	3,852,255	4,610,046	3,906,917
Total	**7,430,794**	**14,917,721**	**20,739,304**	**17,451,032**
FTE	12.34	9.00	9.00	9.00

Program Description

The Grants program is responsible for direction and management of the Department's major grant programs. These programs include the All-Terrain Vehicle (ATV) permits program, the Land and Water Conservation Fund, the Local Grant Program, and the Recreational Vehicle Grant Program. Other minor grant programs are also included in this program. Funding for these programs is from ATV permit fees, Recreational Vehicle registrations, Lottery, Other and Federal Funds.

Budget Environment

The number of applicants seeking grant program funds drives workload levels. There continues to be a high degree of interest in the Local and Federal Grants program funds. Funding from the National Park Service Land and Water Conservation Fund was increased in 2000. The estimated revenue for 2003-05 is nearly $4 million. ATV permit sales increases are providing additional opportunities to set aside resources for land acquisition for ATV recreational purposes. Other grant program funding appears to be stable for 2003-05.

Governor's Budget

The Governor's recommended budget of $17.4 million is $3.2 million or 15.6% less than the 2001-03 legislatively approved expenditure level. The 2001-03 legislatively approved expenditure level includes interim Emergency Board actions since April 2002 for property acquisitions totaling $4.7 million Other Funds and $280,921 Lottery Funds representing carryover grant expenditure limitation which are one-time actions that will not be carried over to the 2003-05 budget. The recommended budget increases Lottery Funds $280,000 to restore historic funding to Community Colleges for Oregon Youth Conservation Corp programs and adjusts the expenditure category from services and supplies to special payments. The Governor's recommended budget also adds $1 million Other Funds to enable the Department to purchase property for the public to ride their vehicles without causing environmental problems in sensitive areas. Funding comes from ATV registration revenues.

The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $171,583 total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $305,738 total funds.

OPRD – Acquisitions

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	4,000,000	4,000,000	4,000,000	4,000,000
FTE	0.00	0.00	0.00	0.00

Program Description

The Land Acquisition program is responsible for direction and management of all real property functions of the Department. The Department was allocated $4 million dedicated to the acquisition and development of new park properties in the 1999-01 biennium. The Department acquired a total of 3,103 acres of land through direct purchase and donation during the biennium.

Governor's Budget

The Governor's recommended budget of $4 million is funded at the historic level established in the 1997-99 biennium.

OPRD – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	89,176	0	0	0
Lottery Funds	6,765,530	6,425,252	9,768,587	12,764,328
Other Funds	43,891,810	44,854,530	46,388,903	50,956,093
Federal Funds	335,728	265,560	1,577,103	1,642,768
Total	**51,082,244**	**51,545,342**	**57,734,593**	**65,363,189**
FTE	367.38	389.12	392.12	406.97

Program Description

The Operations program has responsibility for operation of the state park system on a daily basis. Six activity areas make up the Operations program:

- ***Assistant Director for Operations*** (3.0 FTE) consists of the Assistant Director and two support staff to provide overall direction for Operation program activities.
- ***Field Operations*** (382.97 FTE) is directly responsible for statewide operations of state parks. Management and maintenance responsibilities include insuring the safety of the public and protection of natural resources and facilities. Park Operations are divided into six geographic areas based on the number of park facilities and visitation. Park Operations employees – rangers and seasonal park aides – maintain park buildings and grounds, operate reservation services, collect fees, enforce park rules, and provide information. Other duties include maintenance of trail systems, Willamette Greenway sites, and the Deschutes River Scenic Waterway Recreation Area.
- ***Resource Management*** (7.0 FTE) provides technical expertise and support to field staff on resource management issues and prepares natural resource management plans for individual park areas; manages ocean shoreline state recreation areas; reviews applications for construction, fill, and removal, and issues permits; monitors activities and enforces beach use laws; coordinates with other governmental agencies planning for ocean shore use and protection, emergency services, hazardous waste cleanup, and public safety; manages scenic river waterways; administers the Lower Deschutes River Management and Willamette Greenway programs; and reviews applications and issues permits for state scenic waterways.
- ***Forestry*** (4.0 FTE) plans and conducts all timber management on state park property, coordinates timber sales and monitors replanting, identifies hazardous and unhealthy trees, oversees removal, trains forestry interns, manages wildlife and habitat programs, and protects threatened and endangered species on state park properties
- ***Land Management*** (4.0 FTE) administers the Department's land acquisition and concession programs; manages leases of park land for agricultural use; manages the state recreational trails program; and provides technical assistance to field staff regarding trail development in state parks.
- ***Planning*** (6.0 FTE) develops plans for development, protection, and public enjoyment of state park properties; identifies natural, cultural and scenic resources, opportunities, and constraints; directs the master planning process; and provides direction on planning for repair and development of sites and facilities.

Budget Environment

Growth increases in Oregon's population and economy have caused increases in the demand on current resources and facilities and a need to create new parks and recreational programs. In 1995, the Department implemented a program to promote use of state park campgrounds in off-prime seasons and increase camping revenues. The Department added yurts, cabins, and other promotional activities during this same period.

Additional personnel were provided to meet growth in demand for visitor services that has resulted from the increased usage. In fiscal year 2001, camping increased by over 3% statewide compared to the same time period in 2000 and day use visits increased by 2%.

Governor's Budget

The Governor's recommended budget of $65.4 million is $7.6 million or 13.2% higher than the 2001-03 legislatively approved expenditure level. The recommended budget:

- Eliminates $272,000 Other Funds to reflect the one-time cost in 2001-03 for upgrading radio equipment;
- Eliminates $6,921 Lottery Funds as a result of Governor Kitzhaber's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above;
- Adds $426,000 Lottery Funds and $324,000 Other Funds to establish an ongoing equipment replacement cycle of 7.5 years for heavy equipment such as tractors, mowers, and backhoes;
- Adds $1,000,000 Lottery Funds to provide funding for the first of three phases to development improvements including sewer, water, electrical, road, and trailhead facilities for Washington County State Park;
- Increases Lottery Funds $635,337 and 6.75 FTE to initiate a program for interpretive services identified in the Interpretive Strategic Plan adopted in 2000 by the Oregon Parks and Recreation Commission, phasing in 9 positions in 6 parks and 3 areas;
- Increases Lottery Funds $611,960 for extraordinary utility costs beyond general inflation rates; electric costs have increased 54%, natural gas 22%, garbage 9%, and water/sewer 12%; and
- Increase Other Funds $572,185 to convert temporary position expenditure limitation for work assignments that are longer than three months in each fiscal year to 22 seasonal positions (8.10 FTE) including 17 Ranger Aides, 1 Park Ranger, 2 Food Service Workers, and 1 Cook to conform to human resource policies.

The remaining increases reflect applying the standard inflation rate for services and supplies and state government service charges at $862,442 total funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $3.5 million total funds.

OPRD – Facility Investments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	18,166,425	19,537,363	18,513,186	18,165,128
Other Funds	1,846,403	5,180,478	3,615,358	3,615,358
Federal Funds	345,714	2,776,543	1,465,000	1,465,000
Total	**20,358,542**	**27,494,384**	**23,593,544**	**23,245,486**
FTE	14.00	17.00	17.00	18.00

Program Description

The Facility Investments includes the following two activity areas:

Facility Investments (15.0 FTE) provides engineering design, survey, and construction oversight for statewide park development projects focused on reducing the backlog of repairs and deferred maintenance. The section also develops standards and construction plans that comply with building codes to meet requirements for land use, climates, soils, purposes and visitation levels.

Parks and Prisons (3.0 FTE) provides labor, materials, and products for state parks through partnerships with state, county and local correction and youth crew programs. Crews work on various maintenance and development tasks such as recreation trails, cabin construction, yurt foundations, and boat docks in the parks. The Department of Corrections inmates also provide products such as picnic tables, fire rings, nursery stock, signs, cabin furniture, and computer assisted design work.

Budget Environment

Repair needs continue to compound as buildings age and use increases. Ongoing investments in repairs and renovations from Lottery Funds are planned to continue at $15 million per biennium to reduce the backlog to a manageable level by the year 2020. With increases in park usage, complaints about public conduct, natural resource destruction, and other violations continue to be raised by citizens statewide.

Governor's Budget

The Governor's recommended budget of $23.2 million is $0.3 million or 1.5% less than the 2001-03 legislatively approved expenditure level. The recommended budget reflects an adjustment increasing the cost of debt service by $4,303 Lottery Funds; an increase of $5,699 Lottery Funds reflecting application of the standard inflation rate of 3.5% to services and supplies; an increase of $322,976 Lottery Funds for cost adjustments to unemployment assessments, overtime, temporaries, shift differentials, and merit increases; and a reduction of $681,036 Lottery Funds to keep expenditures at the same dollar amount as it began in 1999 of $15 million level for facility improvements.

OPRD – Nonlimited

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	1,925,901	3,735,328	3,735,328	3,866,065
FTE	0.00	0.00	0.00	0.00

Program Description

The Nonlimited program represents activities in park rentals and sales, real estate transactions, and purchases from grants and donations. The nonlimited category is also used for concessionaire and entrepreneurial ventures in parks, such as rental of paddleboats and houseboats, and selling firewood and fire starters. By law, proceeds from the sale of surplus parklands must be used for parkland acquisition or development.

Governor's Budget

The Governor's recommended budget of $3.8 million is $130,737 more than the 2001-03 legislatively approved expenditure level. The increase of $130,737 Nonlimited Other Funds reflects applying the standard inflation rate of 3.5% to services and supplies.

Water Resources Department (WRD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	21,048,321	23,875,317	22,370,031	22,266,526
Other Funds	5,546,080	4,879,102	4,988,719	5,759,208
Federal Funds	408,673	515,000	999,721	1,295,000
Nonlimited	1,827,943	1,122,688	1,122,688	359,103
Total	**28,831,017**	**30,392,107**	**29,481,159**	**29,679,837**
FTE	154.88	149.24	150.24	143.21

The Water Resources Department (WRD), guided by its seven-member Commission, sets water policy for the state and issues and protects water rights. By law, all surface and groundwater in Oregon belongs to the public. The 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. Agency clients include the general public, water right holders and applicants, irrigation districts, well owners and constructors, drinking water suppliers, property buyers and sellers, environmental groups, and government agencies. The 1999 Legislature eliminated the Governor's Watershed Enhancement Board and created the Oregon Watershed Enhancement Board (OWEB). Although WRD continues to supply some administrative and accounting support to OWEB, the new agency is not a part of the WRD organizational budget structure.

Budget Environment

The Endangered Species Act and other environmental regulations have brought new challenges and have raised the complexity of water allocation decisions. Continued growth in population and industry will intensify demands on scare water resources throughout the state. Storage, groundwater sources, improvements in water use efficiencies, water right transfers, and cooperation between agencies, water users, and interest groups will be increasingly important in meeting future water needs. The Commission adopted the Department's first Strategic Plan in 1995 as a means of describing the management, legislative, and budget requirements necessary to achieve its stewardship and supply goals.

WRD – Administrative Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,587,385	2,486,939	2,476,849	3,078,589
Other Funds	38,546	186,507	193,756	214,389
Total	**2,625,931**	**2,673,446**	**2,670,605**	**3,292,978**
FTE	13.00	11.00	11.00	11.50

Program Description

The Administrative Services Division manages the business and administrative operations of the agency by providing human resource, accounting, payroll, contracting, facilities management, risk management, and training services. The Division is responsible for budget preparation and execution, and coordination of transportation and telecommunications for the Department. The Division also provides management oversight for the Water Development Loan Program and administrative support (accounting, human resources, budgeting, and financial reporting) for the Oregon Watershed Enhancement Board.

Revenue Sources and Relationships

The Division is primarily funded with General Fund, but receives Other Funds revenue from charges for services and sales of publications and surplus property.

Budget Environment

The Division is working to secure new office facilities for the agency. The current building has inefficient heating, does not meet seismic standards, and does not have sufficient office space for projected needs of the agency. Relocation to the new North Mall Complex is planned during the 2003-05 biennium.

Governor's Budget

The Governor's recommended budget for the Administrative Services Division is 23.3% above the legislatively approved budget. This increase is due to rent costs for approximately 8,500 additional square feet of office space when the agency moves into the new North Mall Office Building. One-time funding for moving costs is also included.

WRD – Field Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,630,054	8,295,359	7,156,293	8,716,159
Other Funds	963,001	1,120,867	1,148,825	1,584,867
Federal Funds	1,536	0	4,721	0
Total	**8,594,591**	**9,416,226**	**8,309,839**	**10,301,026**
FTE	64.67	63.03	63.03	63.00

Program Description

The Field Services Division administers all water laws, including dam safety and well construction standards, by a regulation and enforcement program. The Division regulates water use in order to protect senior water rights for both instream and out-of-stream purposes. The Department organized the state's 20 watermaster districts into five regions for more efficient use of field personnel. Field staff includes region managers, watermasters, technicians, and locally-funded assistants who are responsible for dam safety inspections, enforcing water distribution among water right holders, processing water right transfers, hydrologic data gathering, well construction inspections, well monitoring, water right record maintenance, water development loan inspections, and responses to other requests from outside and within the Department. In 1999, the agency reorganized, eliminating the Resource Management Division. Field liaisons from the former Resource Management Division were assigned to the Field Services Division. Liaisons work 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.

Revenue Sources and Relationships

Field Services Division activities are primarily supported by the General Fund. Revenue from Start Card fees (well drilling) provide nearly half of the Division's Other Funds. Additional Other Funds sources include interest earnings and revenue from the U. S. Geological Survey and Bureau of Reclamation for contracted services. Federal Funds from the Bureau of Reclamation are used for various grants to irrigation districts for mapping and other projects.

Budget Environment

As the demands for water to support economic development, agriculture, restoration of natural fish population, and other uses increase, the need for accurate and complete information on the location, supply, and quality of water sources within the state intensifies. The Department's emphasis on water management and additional statutory obligations are generating additional workload and demands for field enforcement activities.

Field activities are largely dependent on the state's watermasters and their relationships to local communities. Counties are required to provide office space for the state watermasters and are asked to provide clerical support and assistant watermasters. Due to local government budget constraints, the amount of assistance provided to the state's watermasters by local partners has declined in recent years. As of July 2002, 14 assistant watermasters and 10 other staff (mostly clerical) were funded locally compared to a high of 37 locally-funded assistant watermasters in 1981.

The Field Services Division is responsible for processing water right permit transfers. Final decisions are made on an average of 235 transfer files per year. Over the past five years an average of 255 new transfer applications were received annually, with 343 new applications being filed in 2001. There is a backlog of 750 transfer applications waiting for final decisions.

Governor's Budget

The Governor's budget for the Field Services Division is 24.0% above the 2001-03 legislatively approved budget. This increased is related to roll-up costs of salary increases, PERS, and flexible benefits incurred during the 2001-03 biennium. Other Funds increases include adding two positions to assist in reducing the backlog of water rights transfer applications and one position to work in the North Central region to assist local planners, municipalities, and agricultural users.

WRD – Technical Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,979,661	8,450,003	8,074,795	5,883,136
Other Funds	1,335,419	2,121,264	2,144,151	2,260,662
Federal Funds	407,137	515,000	995,000	995,000
Total	**7,722,217**	**11,086,267**	**11,213,946**	**9,138,798**
FTE	40.00	43.00	43.00	37.00

Program Description

The Technical Services Division is responsible for managing data and technical analyses of the state's surface and ground water. The Division supports both current and long-term water management needs by collecting, analyzing, and applying information on groundwater and surface water resources. Technical Services consists of Engineering Services, Measurement Services, Enforcement/Well Construction, Information Services, and the Groundwater/Hydrology Section. Programs include hydrologic analysis, groundwater investigations, surface water availability, hydrographics, dam safety, stream gauging, geographic and water rights information systems, well construction and enforcement, water use reporting, and coordination with other agencies on surface and groundwater issues.

Revenue Sources and Relationships

General Fund supports the majority of Technical Services Division activities. Revenue from Start Card fees (well drilling) provides nearly half of the Division's Other Funds. Additional Other Funds sources include interest earnings and revenue from the U. S. Geological Survey and Bureau of Reclamation for contracted services. Federal Funds from the Bureau of Reclamation are used for various grants to irrigation districts for mapping and other projects.

Budget Environment

As the demands for water to support economic development, agriculture, restoration of natural fish population, and other uses increase, the need for accurate and complete information on the location, supply, and quality of water sources within the state intensifies. The Department's emphasis on water management and additional statutory obligations are generating additional workload and demands for technical services activities.

Governor's Budget

The Governor's total budget for the Technical Services Division is 18.5% below the 2001-03 legislatively approved level with the General Fund being reduced by 27.1%. The budget continues reductions made during special sessions including elimination of three positions. The budget includes a policy package to use increased Start Card fee revenue (Other Funds) to upgrade the ground water database and continue one data entry position on a permanent basis rather than limited duration. The Start Card fee is paid whenever a new well is constructed.

WRD – Water Rights/Adjudication Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,182,975	2,319,314	2,297,839	2,222,462
Other Funds	1,169,841	1,060,079	1,102,510	1,284,484
Federal Funds	0	0	0	300,000
Total	**3,352,816**	**3,379,393**	**3,400,349**	**3,806,946**
FTE	27.21	24.21	24.21	22.71

Program Description

The Water Rights/Adjudication Division is responsible for evaluating both instream and out-of-stream water right applications and issuing new water right permits and certificates. Besides the actual permitting process, the Division also administers water right related programs such as water right certification, permit administration, water right transfers, Native American water right negotiations, adjudication of pre-1909 and federal reserved water rights, and hydroelectric licensing. The Division is also responsible for providing public information and customer service, responding to public inquiries, and distributing the notice of applications as well as water right program and policy development.

The Hydroelectric Section has the lead responsibility for Oregon's hydroelectric water right and licensing program. Approximately 167 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.

The Division continues its efforts in the Klamath Basin General Stream Adjudication, a complex situation involving claims for individual, Tribal, and federal water rights along with many resource and supply issues. The Department recently received more than 5,600 legal contests to approximately 680 claims. The Department continues to schedule contested case hearings for all contests not resolved through an alternative dispute resolution (ADR) process. Adjudication staff assists with hearings, accomplish field surveys, and work with claimants to resolve issues related to disputed claims. As agreements are reached and as circuit courts issue decrees regarding the stream basin water rights, the Division will prepare and issue the associated water right certificates.

Revenue Sources and Relationships

The Water Rights/Adjudication Division receives General Fund support for program functions conducted in the public interest such as processing instream water right applications. The primary Other Fund revenue sources include water right application fees, water right transfer fees, and hydroelectric licensing fees.

The 1999 Legislature provided General Fund totaling $1,077,737 to continue water rights determinations in the Klamath Basin General Stream Adjudication and the 2001 Legislature continued that effort with $485,959 additional General Fund.

Budget Environment

Legislation passed in 1995 (SB 674) revised the water rights application process and enabled the Department to eliminate a persistent backlog of applications. As part of the new process, applicants or the public can file protests and request a contested case hearing. The agency is using an alternative dispute resolution process in an effort to settle protests before taking the case to the more costly hearing process.

Water right applications are expected to remain stable for 2003-05; however, as less water is available for appropriation, the application review process is becoming more complex. The agency anticipates roughly 100 protests for the biennium. The alternative dispute resolution process successfully resolves approximately 97% of the protests, thereby greatly reducing the need for expensive contested case hearings.

Governor's Budget

The Governor's budget for the Water Rights/Adjudication Division is 12.0% above the 2001-03 legislatively approved budget; however, the General Fund portion of the budget is 3.3% below the 2001-03 level. The budget continues General Fund reductions made during the special sessions including reductions to services and supplies and the fund shift of one position from General Fund to Other Funds. Continuation of the adjudication process in the Klamath Basin is included in the budget, although at a reduced level, for two positions and limited legal costs.

WRD – Director's Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,118,246	1,773,702	1,834,128	2,091,180
Other Funds	100,746	3,175	3,175	3,598
Nonlimited	0	1	1	0
Total	**2,218,992**	**1,776,878**	**1,837,304**	**2,094,778**

FTE	8.00	6.00	7.00	7.00

Program Description

The Director's Office is responsible for the oversight of all policy-related functions of the agency. The Office develops and updates the agency's strategic plan, conducts all contested case hearings on water right issues and enforcement actions, and coordinates the development of administrative rules. The Office also provides citizen response and information services, supports the Water Resources Commission activities, develops legislative proposals, tracks legislative implementation, and provides oversight of agency activities related to the Oregon Plan for restoration of salmon and watersheds.

Revenue Sources and Relationships

With the exception of small amounts of miscellaneous Other Funds revenue from publication and copy fees, the Director's Office is supported by a General Fund appropriation.

Budget Environment

The Director's Office was created in a 1993 reorganization intended to provide additional internal controls and improve performance in key areas and projects affecting the entire agency. The Office has performed a central role in the Klamath Basin Adjudication. The Department began its alternative dispute resolution program in 1995 to reduce reliance on the Attorney General's office in contested cases and to negotiate effective outcomes for contested matters avoiding formal hearing or further litigation.

Governor's Budget

The Governor's budget for the Director's Office is a 14.0% increase over the 2001-03 legislatively approved level. While reductions made during the special session are continued into the 2003-05 biennium, increases are attributed to roll-up costs of increases to salaries, PERS contributions, and benefits made during the 2001-03 biennium.

WRD – Water Development Loan Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	550,000	550,000	530,127	275,000
Other Funds	1,938,527	387,210	396,302	411,208
Nonlimited	1,827,943	1,122,687	1,122,687	359,103
Total	**4,316,470**	**2,059,897**	**2,049,116**	**1,045,311**
FTE	2.00	2.00	2.00	2.00

Program Description

The Water Development Loan Program was established by the Legislature in 1977 as a general obligation bond program to finance irrigation and drainage projects. The loan program was expanded in 1982 and 1988 through constitutional amendments approved by voters to also include community water supply, fish protection, and watershed enhancement projects. To date, the Water Development Loan Program has reviewed 320 loan applications and funded 181 loans. Of the approved loans, 176 were for irrigation and drainage projects; the five remaining loans were for the development of community water supply systems.

The Loan Program issued state general obligation refunding bonds in 1991 for $6.9 million that were used to pay off existing outstanding bonded debt at higher interest rates. Bonds have not been issued to finance new water development projects since 1984.

Revenue Sources and Relationships

The limited Other Funds expenditures are for administrative costs, including the program's two staff, agency loan management, and contracts for financial services. These costs are financed from sinking fund interest earnings. Nonlimited expenditures include debt service, bond sale costs, and spending authority for any bond sales. The 1999 Legislature provided authorization for up to a $20 million bond sale in the bond appropriation bill but required the program to visit the Emergency Board prior to issuing debt. The need for a bond sale depends on the level of loan application activity. The General Fund appropriation supplements Other Funds revenue to maintain solvency in the program that includes administrative costs and debt service shortfalls. The Legislature provided General Fund appropriations of $2.6 million for 1993-95, $2.5 million for 1995-97, and $1.9 million for 1997-99 to maintain Loan Fund solvency. In 1999, the Legislature scheduled infusion payments for the ensuing five biennial periods, the 2001-03 infusion being $550,000 General Fund, although this amount was reduced by $20,000 during the special sessions.

Budget Environment

The Water Development Loan Program experienced cash flow difficulties from defaulted loans and a class action lawsuit filed in December 1991. The Lake County Circuit Court ruled in favor of the borrowers, and a settlement was reached. At its January 1996 meeting, the Emergency Board approved the transfer of $1.3 million of Nonlimited Debt Service to the agency's operating budget to pay for the settlement costs of the class action lawsuit. The settlement limited administrative costs to $50,000 per year. The state retains responsibility for all administrative costs beyond this amount and for any debt service shortfalls until the loans are retired. During the 1999 Legislative session, the Department estimated that it would need $2 million to fund unexpected early loan payoffs, foreclosures, and other administrative costs through the remaining life of the current bond portfolio extending to 2014. The adopted budget recommended a series of 5 biennial payments of $550,000 General Fund to achieve the same effect. As of December 2000, cash flow projections indicate that the $550,000 biennial supplemental amount for 2001-2003, together with other fund balances will be adequate to meet required debt service payments.

The Department established a steering committee and consulted with the Department of Administrative Services to review the loan program administrative rules and to establish a revised program to avoid repetition of past problems. Unsuccessful efforts were made to move any new loan program to another state agency with greater experience in loan program administration. While some irrigation districts have expressed interest in applying for new project loans, no applications were received during the 1997-99 or 1999-01 biennia. The Water Resources Commission created the Water Development Loan Fund, Loan Advisory Board to take advantage of citizen expertise in the review of loan applications and to provide an independent assessment of risk associated with granting loans. During the 2001-03 biennium to date, however, there have been no additional loans funded from the Water Development Loan Fund.

Governor's Budget

The Governor's budget for the Water Development Loan Program is 31.5% below the 2001-03 legislatively approved budget and includes a 48.1% reduction in General Fund. The budget reduces the scheduled debt service cash infusion and may result in the need to extend the period cash infusion payments may be required.

Oregon Watershed Enhancement Board (OWEB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,198,212	875,000	1,036,753	101,280
Lottery Funds	13,773,426	48,585,907	49,038,734	32,303,598
Other Funds	1,826,468	2,274,939	2,274,939	1,826,568
Federal Funds	4,156,795	17,165,875	28,965,600	22,580,000
Total	**21,954,901**	**68,901,721**	**81,316,026**	**56,811,446**
FTE	15.10	23.00	23.00	20.00

The Oregon Watershed Enhancement Board (OWEB) was created by the 70th Legislative Assembly through the passage of HB 3225 (1999). This legislation implemented Ballot Measure 66 (1998) and established the framework for the full allocation of the measure's constitutionally dedicated lottery resources. 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. OWEB was designated as the single state agency charged with administration of the salmon and watershed portion of the dedicated lottery revenues.

OWEB represents a reformulated Governor's Watershed Enhancement Board (GWEB). GWEB was established in 1987 by the Legislature and given responsibility for the restoration and enhancement of riparian and upland watershed areas. The Board was administratively included within the Water Resources Department but functioned independently. OWEB consists of 11 voting members, including five voting members from state natural resource agency boards and commissions and six public members appointed by the Governor and confirmed by the Senate. OWEB is also authorized to include up to six additional non-voting members, including the director of Oregon State University's agricultural extension service and representatives from five federal land and natural resource agencies.

HB 3225 created a Parks and Natural Resources Fund to receive the lottery revenues and established two accounts, the Parks Subaccount for park purposes and the Restoration and Protection Subaccount for salmon and watershed purposes. Ballot Measure 66 required that at least 65% of the revenue for salmon and watershed restoration be used for capital expenditures. In order to maintain accountability, HB 3225 defined "capital expenditures" and the Watershed Improvement Grant Fund was designated to receive these funds. The bill also established a Watershed Improvement Operating Fund to receive the 35% of lottery revenues able to be used for non-capital projects.

OWEB – Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,198,212	875,000	1,036,753	101,280
Lottery Funds	5,122,981	6,578,488	6,258,975	7,191,260
Other Funds	1,826,468	2,274,939	2,274,939	1,826,568
Federal Funds	4,156,795	17,165,875	28,965,600	22,580,000
Total	**13,304,456**	**26,894,302**	**38,536,267**	**31,699,108**
FTE	15.10	23.00	23.00	20.00

Program Description

The agency's Operations are funded through the Watershed Improvement Operating Fund (WIOF). The fund was created to facilitate the tracking and accounting of lottery revenues for the required purposes. Use of the revenue in the WIOF is authorized for the operational expenses of OWEB; activities of state and local agencies and other public entities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality; watershed improvement grants that are not capital expenditures; and watershed improvement grants that are capital expenditures.

Revenue Sources and Relationships

Based on the close of session revenue forecast of $49.6 million Lottery Funds available for salmon and watershed restoration in the 2001-03 biennium, the maximum allocation for non-capital expenditure activities was estimated at $17.4 million. Of this amount OWEB was authorized to use $3.8 million for administrative costs and was directed to provide $2.4 million from the WIOF for support of local watershed councils and $0.4 million for support of the Independent Multidisciplinary Science Team. The remaining $10.8 million available for operational activities was distributed by the Legislature to other state agencies, including the Departments of Fish and Wildlife ($3.9 million), Agriculture ($2.4 million), State Police ($4.0 million), and Environmental Quality ($0.2 million).

The Legislature provided $1.5 million General Fund in 2001-03 to complete work on assessment and monitoring associated with the Oregon Plan committed in the 1999-01 biennium, but not expended. An additional $0.5 million General Fund was added to fund the Willamette Restoration Initiative.

The forecast available during development of the Governor's budget (December 2002) assumes $49.2 million Lottery Funds (Measure 66) will be available for the Restoration and Protection Subaccount in the 2003-05 biennium. The amount represented a decrease of $0.4 million from the 2001-03 close of session revenue forecast (May 2001). Based on the constitutional split between operations and capital expenditures, no more than $17.2 million of the Measure 66 lottery revenue can be used for non-capital expenditures, including OWEB and other agency operational costs, during the 2003-05 biennium.

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 authorized by Congress for the Federal Fiscal Year (FFY) period 2000-2003 and are for salmon habitat restoration, stock enhancement, and research. Oregon's share of the FFY 2002 grant was $17 million, only $5 million of which was authorized for expenditure by the Emergency Board during the 2003 biennium. PCSRF FFY 2003 funding of $14 million has been appropriated by Congress, which is currently considering an additional $14 million for FFY 2004 included in the President's budget request. Other Funds are received from the Department of Transportation for one-half of the proceeds from the sale of salmon license plates and from various non-governmental sources in the form of donations and grants.

Budget Environment

One of the fundamental challenges of the Oregon Plan is the coordination of actions by a variety of federal, state, and local entities to restore and manage watershed health. Since the Oregon Plan was founded largely on the principles of local involvement and volunteerism, OWEB provides an important role by distributing funding for projects, offering technical assistance, and making information available.

During the 2002 second special session the 2001-03 budget was reduced $1 million General Fund, reduced $0.4 million Lottery Funds and increased $6.1 million Federal Funds as part of a one-time fund shift that moved $5 million in salmon recovery and watershed restoration activities in a number of natural resources agencies from General Fund to Lottery Funds (Measure 66) and Federal Funds (PCSRF). The agency retained the remaining $1.1 million Federal Funds for grants. In addition to the $6.1 million PCSRF, the Emergency Board later approved OWEB's submittal of a grant application for $17 million in PCSRF funds. At that time the agency's Federal Funds expenditure limitation was increased $5 million to reflect the grant amount the agency anticipated expending during the 2001-03 biennium. Expenditure limitation for the remaining $12 million is included in the agency's 2003-05 budget as a policy package.

Governor's Budget

The Governor's recommended budget for OWEB includes a total of $31.7 million for Operations. The recommended budget represents an 18% decrease from the 2001-03 legislatively approved expenditure levels. This change is due to a $6.4 million decrease in Federal Funds from the Pacific Coastal Salmon Recovery Program caused by phasing-out previous year grants. The recommended budget's $22.6 million Federal Funds includes $10 million in carry forward from 2001-03 that was committed to projects, but could not be spent by the end of the biennium, plus $12 million remaining from the FFY 2002 PCSRF grant not committed during the 2001-03 biennium. The Governor's budget does not accommodate the $14 million PCSRF funding appropriated by Congress to Oregon for FFY 2003. General Fund support decreases $0.9 million due to expenditure of funds carried forward from the 1999-01 biennium.

State support under the Governor's recommendation is basically unchanged from 2001-03 legislatively approved levels. Other Funds expenditure limitation, including carry forward and estimated receipt of salmon plate and other miscellaneous revenues, continues near previous levels. The recommended budget supports a total of 20.0 FTE within OWEB, a decrease from 23.0 FTE in the 2001-03 budget. This decrease is caused by removal of one limited duration position and elimination of two positions unsupportable due to insufficient Measure-66 operating Lottery revenue.

The recommended budget for OWEB Operations includes the following funding changes:

- A reduction of $1,036,753 General Fund carried forward in the 2001-03 budget from the 1999-01 biennium for non-capital expenditure grants to fund watershed assessments, monitoring, education, and technical assistance for restoration projects.
- $101,280 General Fund and $198,720 Lottery Funds is added to move the Lower Columbia River Estuary Project from the Department of Environmental Quality to OWEB. This funding represents the state's share of match required to receive federal funding for habit and restoration and education efforts in the Lower Columbia River region. Washington State also provides match for this effort, which was initiated in 1995.
- $413,689 Lottery Funds is decreased and 2.0 FTE were eliminated to balance the anticipated revenue available for non-capital expenditures from Measure 66 Lottery Funds.
- $12,319,433 Federal Funds expenditure limitation is added to reflect the portion of the $17 million FFY 2002 PCSRF grant not expended in the 2001-03 biennium.
- $240,567 Federal Funds limitation is added to continue support for a limited-duration grant program manager established administratively in September 2001 that was supported by Lottery Funds. The Governor's budget moves the source of funding for the position to Federal Funds from the administrative allowance on the Pacific Coastal Salmon Recovery Fund grant.

OWEB – Capital Construction Projects

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	8,650,445	42,007,418	42,007,418	24,897,338
FTE	0.00	0.00	0.00	0.00

Program Description

Capital Construction Projects of the agency are funded through the Watershed Improvement Grant Fund (WIGF). The WIGF was an existing fund used by the Governor's Watershed Enhancement Board prior to the establishment of OWEB to support on-the-ground projects and other eligible expenditures under the Oregon Plan. With passage of Ballot Measure 66 and its implementing legislation (HB 3225), the funding source for the WIGF changed. Ballot Measure 66 required that 65% of the dedicated lottery revenues be used for capital expenditures, but failed to define the term. HB 3225 defined capital expenditures to mean projects that restore, enhance, or protect fish and wildlife habitat, watershed functions, native salmonid populations, or water quality or expenditures for personal property of a nonexpendable nature used in the enforcement of fish, wildlife, and habitat protection laws and regulations.

Revenue Sources and Relationships

Based on the December 2002 revenue forecast of $49.2 million Lottery Funds available for salmon and watershed restoration in the 2001-03 biennium, at least $32 million is required for use on eligible capital expenditure activities. Of the amount, the Governor's budget provides $25.4 million for project funding left to the discretion of OWEB.

Budget Environment

The ability of OWEB to be effective in promoting and implementing programs to restore, maintain, and enhance Oregon watersheds is partially dependent on the cooperation of other state natural resource agencies and on the capacity of local conservation efforts to identify, design, and develop projects in a timely manner.

Governor's Budget

The Governor's recommended budget for OWEB Capital Construction Projects using Measure 66 Lottery Funds includes $25.4 million for eligible capital expenditure activities. The recommended budget includes one program option package adding $1,614,698 Lottery Funds to the Watershed Improvement Grant Fund to balance the fund with estimated revenues. The remaining $6.6 million is distributed to other agencies including the Department of Agriculture ($1.4 million) for riparian and wildlife habitat weed control grants, the Department of State Police ($0.8 million) for vehicle expenses related to fish and wildlife enforcement activities, and the Department of Fish and Wildlife ($4.4 million) for the continuation and enhancement of cooperative fish screening, fish by-pass device, and fish passage programs. Distribution of the remaining amounts in the WIGF is left to the discretion of OWEB.

OWEB – Restoration and Protection Research Fund

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	0	1	772,341	215,000
FTE	0.00	0.00	0.00	0.00

Program Description

The Restoration and Protection Research Fund (RPRF) was created by the 1999 Legislature in HB 3225. The fund is to be used for the purpose of funding research and other activities related to the restoration and protection of native salmonid populations, watersheds, fish and wildlife habitats, and water quality, including but not limited to research, monitoring, evaluation, and assessment related to the Oregon Plan. All interest earnings on the Restoration and Protection Subaccount, the Watershed Improvement Operating Fund (WIOF), and the Watershed Improvement Grant Fund (WIGF) are to be credited to the Restoration and Protection Research Fund. On June 22, 2001, the Attorney General advised OWEB that expenditures of interest earned on the WIOF and WIGF are constrained in the same manner as expenditures from each of these funds are constrained.

Revenue Sources and Relationships

Revenue for the Restoration and Protection Research Fund is from interest earnings on the other OWEB funds, including the operating and grant funds. Approximately $3.4 million is estimated to be available in the fund for research projects in the 2003-05.

Budget Environment

During deliberations on the implementation of Ballot Measure 66 and the continuation of the Oregon Plan, the Legislature noted that a funding gap existed for research activities not specifically tied to any individual grant or on-the-ground project. The Restoration and Protection Research Fund was established to create a funding source to address these issues.

With no viable proposal for the use of the Restoration and Protection Research Fund, the 2001 Legislature approved the Governor's recommended limitation of $1 Lottery Funds. In order to spend from the fund prior to the next legislative session, the agency was required to request additional Lottery Funds expenditure limitation from the Emergency Board. During the 2001-03 interim the Emergency Board provided OWEB a total of $0.8 million expenditure limitation for both a study of fish deformities in the Newberg pool of the Willamette River and a Department of Forestry study on the effectiveness of state forest practices.

Governor's Budget

The Governor's recommended budget includes $215,000 to complete a study of Willamette River Toxins. The recommended budget includes an estimated $1.1 million in interest earnings for the 2003-05 biennium. In addition, $2 million is included as unexpended carry-over limitation from the 2001-03 biennium. This $3.1 million is included in the agency's Lottery Funds ending balance for the 2003-05 biennium.

TRANSPORTATION

Oregon Department of Aviation (Aviation) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	100,567	0	0	0
Other Funds	9,084,871	16,890,657	18,991,177	16,026,262
Total	**9,185,438**	**16,890,657**	**18,991,177**	**16,026,262**
FTE	15.79	16.50	16.00	15.50

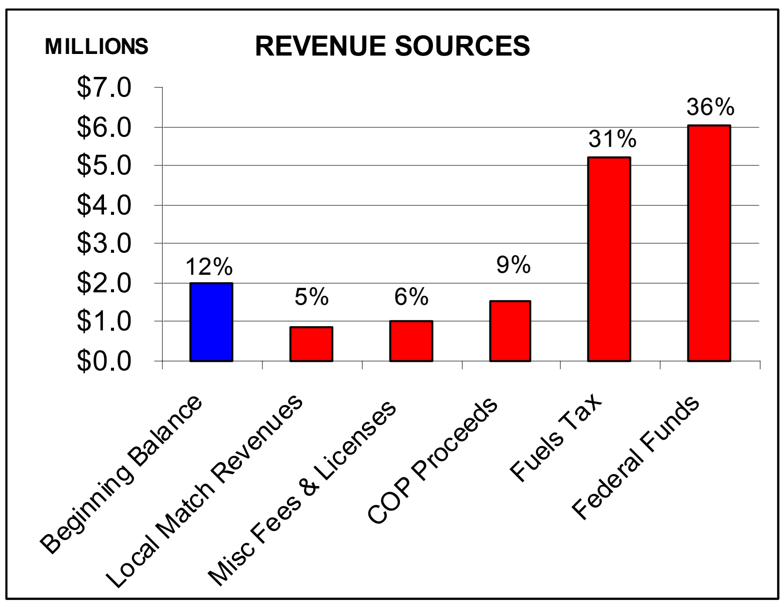
The 1999 Legislature created the Department of Aviation as a stand alone agency to advocate for the safe operation, growth, and improvement of aviation in Oregon. Its goals include developing aviation as an integral part of Oregon's transportation network, including encouraging aviation-related economic development and increasing commercial and general air services in Oregon. The seven member State Aviation Board, appointed by the Governor, represents aviation interests from the public and private sectors. The Board provides policy direction to the Department.

Sixteen staff persons support four programs: 1) Operations, 2) Search and Rescue, 3) Capital Improvements, and 4) Capital Construction. Staff conduct aviation safety and public education programs, safety inspections, and assist local governments with guidance, information and technical support regarding airport ordinances, layout, land use laws, grant and entitlement programs, pavement management, and airport master plans. In addition, the Department operates 28 state airports and registers all pilots and nonmilitary aircraft based in Oregon.

The Department administers three funding programs: 1) Federal Aviation Administration (FAA) grant programs, the Airport Improvement Program (AIP) and the FAA General Aviation (GA) Entitlement Program; 2) Pavement Maintenance Program; and 3) the state's own grant program, Financial Aid to Municipalities (FAM).

Revenue Sources and Relationships

The Department is supported entirely by Other Funds (OF). Total estimated revenue for 2003-05 is $16,991,736. The revenue is made up of about 31% fuels tax, 36% Federal Funds (spent as OF), 12% beginning fund balance and the remainder from other revenue sources, such as registration fees, leases, search and rescue, bond sales and donations.



The jet fuel tax remains at $0.01 per gallon as approved by the 1999 Legislature. Of the $0.01 tax, one half goes to the Department's operating budget and the other half is dedicated to pavement maintenance for all public owned and public use airports. The aviation fuel tax remains at $0.09 per gallon as approved by the 1999 Legislature. Of the $0.09 tax, $0.03 goes to the Department's operating budget and $0.06 is dedicated to pavement maintenance. The fuel taxes generated $4.8 million for the 2001-03 biennium. Over $5.2 million is estimated to be generated in 2003-05.

Funds from the FAA AIP provide grants for capital construction projects and system planning for state-owned and public-use airports. The AIP grants require a 10% state or local match. The Aviation Investment and Reform Act (AIR 21 Bill) adopted by Congress (GA Entitlement Program) provides $150,000 per year for three years awarded to eligible airports. Oregon has 47 eligible airports, 19 of which the Department has administered the GA Entitlement Program for 2002-2003. Eligibility is based on a federal formula; therefore, the state does not have to compete for the funds. The funds provide improvements to airport security, pavement, and lighting and require a 10% match.

The Pavement Maintenance Program for Core System Airports is funded by the State Aviation Fuel Tax revenue. Airport sponsors participate with local matching funds. The fund's purpose is to help reduce airport pavement maintenance backlog. Staff provides maintenance on a three year revolving geographical basis.

Financial Aid to Municipalities (FAM) is the Department's grant program. Funds are awarded at a maximum of $10,000 and may be used for federal grant matches. The FAM funds must be spent in a two-year period or the funds are no longer available and are reallocated in the next biennium.

The Department registers and collects fees from about 6,700 pilots, deducts for administrative costs and passes the dedicated funds to the Oregon Emergency Management Search and Rescue. The registration fee is $8 for initial registration (good until the pilot's birthday), and $16 for renewals, which are for a two-year period. Approximately 4,900 aircraft are registered with the Department. Fees are based on the class of the aircraft. The Department also licenses 25 licensed aircraft providers at $250 annually. These fees are used to fund operations.

Governor's Budget

The Governor's budget provides $16,026,262 Other Funds and 16.0 FTE. This represents a decrease of $2,082,175 or 11.5% below the 2001-03 legislatively approved budget, and a decrease of $864,395 or 5.12% below the 2001-03 legislative adopted budget.

Aviation – Operations Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	4,547,945	13,215,371	14,513,939	7,827,043
FTE	15.79	16.50	16.50	15.50

Program Description

The Operations Program is responsible for the following six service areas:

- ***Airport Services*** (3.0 FTE) manages more than 200 leases and other property agreements; oversees inspections, planning, engineering and construction on development projects; coordinates tenant relations for state-owned airports; and applies for and administers the Federal AIP grants.
- ***Airport Maintenance*** (2.0 FTE) maintains state-owned airports to federal and safety standards including routine and preventive maintenance such as mowing, obstruction removal, pavement preservation, and navigational aid maintenance.
- ***Aircraft and Pilot Registrations*** (0.5 FTE) involves registering 6,700 pilots and 4,900 aircraft annually.
- ***Statewide Services*** (5.0 FTE) leads and manages the Department; develops statewide aviation policy and solutions to aviation problems (noise, airport sites, funding); fosters strong relationships and partnerships; manages agency budget and finances; provides public information and outreach services; maintains an aviation lending library; and provides support services.
- ***Airport Operations*** (1.0 FTE) is responsible for airport safety inspections on state-owned and other Oregon public airports; investigates proposed airport and heliport sites; licenses and registering airports and heliports; provides technical safety advice on facilities siting and feasibility issues.
- ***Planning*** (4.0 FTE) develops and implements the Oregon Aviation Plan and related policies; conducts continuous aviation system planning; provides technical assistance on airport planning and development; administers grant and aid programs for airport development; comments on land use and zoning requests that may impact civil aviation; review proposed development for safety hazards to aviation; and works with partner communities and agencies to improve the level of airline services.

Budget Environment

The budget environment has changed for the Department, in that it has lost 25% of its staff due to retirements during 2002. The Department is expecting several more retirements by the end of the 2005. A lot of history, experience, and knowledge will leave with the retirees. The Department is expecting to gain new insight and flexibility to meet the new demands and scrutinize programs for improvements. The new State Aviation Board is beginning to aggressively pursue aviation issues and provide strategic direction for the Department.

The terrorist attacks of September 11, the rising costs of new aircraft and fuel, dissatisfaction with commercial airline services, and community interest in local air transportation for access to urban and recreational areas are all driving the trend for increased general aviation activity. Other budget drivers include:

- The ability to transfer airport ownership to local communities to support and maintain (the Beaver Marsh State Airport and Lake Billy Chinook Airport were surplused during the 2001-03 biennium);
- A increased focus on alternate connections and air travel options;
- Complaints and conflicts over aviation issues, in particular, airport noise levels; and
- Oregon companies need for rapid and efficient transport of manufactured goods between smaller communities.

The Department is facing aging facilities infrastructure, in particular, pavement at public use airports constructed during World War II and the deterioration of the Department's one public building constructed in 1955. The 1999 Legislature foresaw the problem with public use airport pavement and created the Statewide Airport Pavement Maintenance Program. However, the condition of the Salem aviation building has not been addressed.

Governor's Budget

The Governor's budget provides $7,827,042, Other Funds and 16 positions (16.0 FTE). This represents a decrease of $6,606,109 or 46% below the 2001-03 legislatively approved budget, and a decrease of $5,388,329 or 69% below the 2001-03 legislatively adopted budget. The Governor's recommended budget specifically adds $150,000 for aviation programs, $50,000 for the aircraft registration database, $319,438 for debt service on Certificates of Participation for construction of a new Salem office building, and transfers $6,016,000 from the Operations Program to the Capital Construction Program within the agency.

Aviation – Search and Rescue Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	122,405	125,104	127,056	183,218
FTE	0.50	0.50	0.50	0.50

Program Description

The Search and Rescue program unit accounts for and distributes net revenues from pilot registration fees to Oregon State Police, Office of Emergency Management (OEM) to coordinate all air search and rescue efforts statewide including searches for lost people and overdue aircraft. OEM also develops and trains search and rescue volunteers working closely with the U.S. Air Force, Civil Air Patrol, volunteer pilots, county sheriffs, the U.S. Coast Guard, and other branches of the military during air searches.

Budget Environment

The Search and Rescue Program collects pilot registration fees, deducts administrative costs, and distributes the funds to the OEM by special payment. Funds are restricted to aerial search and rescue activities. The Department accounts for 0.5 FTE to provide the administrative function of registering pilots and collecting fees. The OEM carries out the major program activity; therefore, continuing the revenue and expenditure limitation in the Aviation Department budget may need to be re-examined by the State Aviation Board and the Legislature.

Governor's Budget

The Governor's budget provides $183,219 Other Funds for the Search and Rescue Program. This represents an increase of $58,115 or 46% over the 2001-03 legislatively approved budget. The Governor's budget specifically adds $50,000 increase for reprogramming the pilot registration database. One half-time (0.5) FTE is accounted for in the Governor's budget.

Aviation – Capital Construction Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	4,375,000	339,250	339,250	8,016,001

Program Description

This program provides for the development and improvement of state-owned airports for community access, development, and emergency use.

Revenue Sources and Relationships

The primary source of revenue for this program is through dedicated federal grants awarded by the FAA under the AIP. Ninety percent of eligible land and construction costs are paid through Federal Funds. The 10% match may be provided through the Department's FAM grant program.

Budget Environment

The state competes with other Oregon airports for a share of the Airport Trust Fund for state-owned airport improvements. The FAA requires potential capital improvement projects be submitted for consideration of inclusion in the FAA Capital Improvement Program five year plan. The Department is typically notified of airport improvement when projects are programmed for funding as they move up on the FAA's Capital Improvement Program five year plan priority list. The FAA prioritizes projects based on criteria and availability of funds. When the State is notified that a project is programmed for funding, it is required to provide plans, specification development, and proceed with bid and contractor selection. The State can then request funding for construction and recovery of engineering and administration costs. The Department has identified over $10.6 million in federally eligible projects for the years 2001 through 2007.

Governor's Budget

The Governor's budget provides $8,016,001 Other Funds. The budget has four elements:

- A $2 million capital construction project to build a new Salem office building. The agency will provide $500,000 from its operating budget and will sell $1,500,000 in Certificates of Participation to fund the project. The long term cost built into the net fiscal debt service is $1,852,092.
- A $6,016,000 transfer of GA Entitlement funds from the agency's Operations Program to the Capital Construction Program. The $6 million is the Federal Fund appropriation ($7,400,468) remaining balance, approved by the 2001 Legislature, carried over to the 2003-05 biennium. The Department argues the transfer is reasonable because the GA Entitlement funds awarded can be held or banked for three years ($150,000 per year, maximum $450,000). However, project life cycles can take up to five years or more to complete. The transfer will allow for easier tracking as the funds carry over from biennium to biennium.
- Eliminates 2001 nonrecurring construction funds of $3,210,932 for airport improvements at Aurora, Condon, Joseph, and Chiloquin airports. The projects are completed.
- A $1 placeholder for a capital construction project for Cottage Grove Airport.

Aviation – Capital Improvement Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	39,521	0	0	0
Lottery Funds	100,567	0	0	0
Other Funds		339,250	339,250	0
Total	**140,088**	**339,250**	**339,250**	**0**

Program Description

This program provides for airport improvement projects that are less than $500,000 and can be accomplished in one biennium. Funding is 90% Federal Funds and 10% Other Funds.

Governor's Budget

The Governor recommends no expenditures for capital improvement in the 2003-05 biennium. The 2001 nonrecurring expenditure limitation of $399,250 Other Funds, used to provide the state match for the Wasco State Airport and Jordan Valley Airport federally funded improvement projects, do not carry over to 2003-05. The Wasco State Airport project is completed. The Jordan Valley Airport project is scheduled for completion by the end of this biennium.

Department of Transportation (ODOT) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	19,928,088	20,111,026	17,324,513	12,158,487
Lottery Funds	22,951,780	23,730,016	13,731,962	32,557,388
Other Funds	1,521,343,118	1,658,640,853	1,720,516,409	1,964,667,922
Federal Funds	33,892,107	69,553,032	69,775,066	70,230,235
Nonlimited	56,457,103	68,366,965	68,449,010	94,923,488
Total	**1,654,572,196**	**1,840,401,892**	**1,889,796,960**	**2,174,537,520**
FTE	4767.19	4726.64	4731.05	4686.26

The Department of Transportation (ODOT) is responsible for developing, maintaining, and managing Oregon's transportation system in a safe and efficient manner that enhances the state's economic competitiveness and livability. Historically, ODOT has focused primarily on constructing and maintaining highways; however, more recently, with designated General, Federal, and Lottery Funds, it has broadened its focus to include reduced use of the automobile in congested areas and increased emphasis on alternative modes of transportation. The Department is under the direction of a Director and five-member Oregon Transportation Commission, all of whom are appointed by the Governor, and confirmed by the Senate.

Revenue Sources and Relationships

The bulk of the Department's revenues originate from motor fuel taxes, licenses, and fees that are constitutionally dedicated. The State Highway Fund is shared among ODOT, counties and cities. Out of $2.4 billion to be collected for 2003-05, $552 million is projected to accrue to other state agencies and local governments leaving $2 billion available for expenditure on transportation programs. The most recent revenue forecast projects gross highway fund collections to increase by about 1.46% from the 2001-03 estimates. State motor fuel sources are forecast to increase 2.2% due to an expected recovery in Oregon's economy. The risks of higher oil prices with the intensifying conflict in the Middle East have not been factored into the revenue forecast. Weight-mile fuel tax rates were reduced by 13.5% in the 1999-01 biennium to reflect the most recent cost-responsibility report. In addition, the economic slowdown in Oregon and the nation has impacted the trucking and the goods moving industries in a significant way. The 2003-05 forecast for motor carrier activity is decreased about 55% from the 2001-03 estimate as a result of these factors. Heavy vehicle registration, which showed a slight decline in 2001, is expected to decrease by 6% in 2002, start showing signs of recovery in 2003, and an even stronger growth of more than 5% in 2004. Heavy vehicle registration is forecast to grow approximately 2% for the 2003-05 biennium. The 1999 Legislature adopted HB 2193 which increased driver licenses to an eight-year renewal cycle. This conversion began in October 2000 and will be completed about October 2004. The law will have the greatest affect on transactions in the 2003-05 biennium. Driver license revenues are forecast to increase about 4.76% over the 2001-03 collection. The changes in legislation helped mask the impact of the weak Oregon economy on vehicle registrations. The 2005-07 biennium will reflect a decrease of approximately 24% from license renewal collections as transactions level out to reflect the eight-year cycle. The 2001 Legislature endorsed a plan to provide over $71 million in new revenue to finance highway user tax bonds for bridge repair, pavement preservation, modernization, and safety work over the next three biennia. The new revenue comes from an increase in vehicle and truck titling fees, and fees to be charged to utility companies for work in the public right of way. The 2003-05 revenue projections include $452 million in revenue bond proceeds to continue implementation of the Oregon Transportation Investment Act (OTIA).

The Transportation Operating Fund was established by the 2001 Legislature to pay the expenses of statutorily required or authorized activities that may not be funded with State Highway Fund monies. Among the revenues deposited in the Transportation Operating Fund is fuel tax revenues collected on sales of fuel for non-road uses if a claim for a refund is not filed. The Department of Administrative Services oversaw a survey conducted by Oregon State University to estimate the amount of taxes paid on vehicle fuels for non-road uses. Based on the survey, 15.8 million gallons of fuel is used annually in this category for non-road uses. At $0.24/gallon, $3.8 million per year will be available for non-road uses. These revenues can be used for expenses ineligible for payment from constitutionally restricted Highway Funds.
Federal appropriations from the Federal Highway Trust Fund, authorized by the Transportation Equity Act for the 21st Century (TEA-21) are received and reported as Other Funds. The total amount of Federal Funds in this category for the 2003-05 biennium is over $654 million, an increase of approximately 14%. Federal Funds

received and reported as federal revenue are grants or direct revenue for specific programs such as transit and rail projects.

The Department receives $19 million in Lottery Funds to make bond installment payments for the Westside Light Rail Line, construction of which is now complete. The 2001 Legislature authorized the sale of $35 million in Lottery Bonds to participate in the South Metro Commuter Rail Project over the 2001-03 and 2003-05 biennia and the sale of $2 million to capitalize the Short Line Premium Credit Account. Lottery Funds allocated to pay the debt service on these bonds are estimated at $8 million. The Department requests $7.7 million in General Fund for Senior and Disabled Transit programs and $5 million General Fund for the Willamette Valley Passenger Rail program. The following Table summarizes the Department's major sources of revenue.

Revenue Source	2001-03 Estimated	2003-05 Governor's Rec. Bud.	Percent Change
Beginning Balance	$160,643,070	$518,234,950[1]	240%
General Fund	18,651,017	12,158,487	-35%
Lottery Funds	20,197,845	26,527,362	-24%
Federal Revenue	60,125,125	70,728,458	-27%
Other Funds:			
Federal Revenues as Other	573,063,976	654,609,491	14%
Motor Vehicle Fuels Tax	808,903,144	826,063,577	2%
Vehicle Licenses	224,931,892	235,628,178	5%
Drivers' Licenses	71,031,501	71,019,331	0%
Other Licenses and Fees	8,161,647	11,874,044	45%
Weight Mile Tax & Fees	407,496,758	431,006,146	6%
Revenue Bonds	352,257,223	165,515,073	-53%
Interest Income	16,490,761	25,246,710	53%
Sales Income	13,870,791	14,858,636	7%
Charges for Services	53,389,956	55,685,390	4%
Other Misc. Revenues	27,938,611	18,925,015	-51%
Transfers In (Revenue, etc.)	49,751,659	95,968,629	93%
Subtotal, Revenues	**2,866,904,976**	**$3,234,049,477**	11%
Transfers to Other Agencies	(53,083,315)	(53,640,792)	1%
Transfers to Cities and Counties	(493,900,926)	(497,613,706)	1%
Revenues Available for Expenditure	**2,319,920,735**	**$2,682,794,979**	14%

[1] The 2003-05 Beginning Balance Includes $302,167,195 Revenue Bond Proceeds

Budget Environment

Oregon's population growth rate, stronger employment, and E-commerce continue to increase traffic congestion and demands for maintenance, pavement preservation, Driver and Motor Vehicle services, and Motor Carrier Transportation activities. At current funding levels, ODOT predicts critical transportation needs will not be met during the next 20 years. The state's aging transportation infrastructure is more costly to operate and maintain. One-fourth of the state's bridges have exceeded their design life of 50 years. Other variables influencing the agency's budget include higher demand for use of trucks to ship products to market; environmental regulations, which add to the cost for design and construction requirements; and extreme weather conditions that cause unexpected emergency repair costs.

The Oregon Transportation Commission identified road and bridge maintenance and preservation as its highest priority for the 2003-05 biennium, shifting $40.2 million from other transportation programs in an effort to prevent further pavement and bridge condition decline due to projected revenue shortfalls. The 2003-05 budget holds current services to the 2001-03 budget levels. Local governments face equally critical transportation issues. Pressure on property taxes and local general funds combined with no increase in state funding have reduced local community resources for transportation.

Congress will begin writing a new transportation bill in 2003. The current bill, the Transportation Equity Act for the 21st Century (TEA-21), expires September 30, 2003. Federal funds make up about 40% of ODOT's budget. The state currently receives about $300 million a year in federal highway funds; local transit districts around the state receive millions of federal dollars for transit stations, bus purchases, light rail and operating assistance each year. ODOT expects to play an active role in the reauthorization process to influence support for provisions in the bill that benefit the state's priorities in addressing the aging transportation infrastructure, modernization, safety, transit, and rail services.

The agency's 2001-03 budget was reduced by $3 million General Fund based on 2002 special session actions. The agency managed the reduction by decreasing grants for construction of a transit facility in Lane Transit District; decreasing grants used to educate youth and other at-risk drivers about traumatic injuries as well as proper use of helmets, safety belts, and car seats; and delaying planned improvement to intercity service between rural areas. A portion of the General Fund reduction was offset by adjusting the budget to reflect the use of Other Funds from the Transportation Operating Account for the Motor Voter Program, Transportation Growth Management, Special Transportation Program, and Transportation Demand Management. The amount remaining in the Transportation Operating Account is included in the Governor's recommended budget to fund the operation of one train in the Rail Program at $4.9 million and $2.1 million in other General Fund programs in Public Transit and Transportation Safety.

Governor's Budget

The Governor's recommended budget of $2.2 billion total funds is increased $288 million or 15% from the 2001-03 legislatively approved expenditure level. The budget focuses resources on highway and bridge preservation by internal reallocation of $40.2 million among program units and delaying several projects scheduled for 2003-05 to the following biennium. The budget includes $278.2 million for highway construction projects supported by the highway user bonds. The budget also continues support for senior and disabled transit operations and equipment and for high-speed rail and buses at a reduced level. The recommended budget reduces 13.74 FTE in Highway programs, Central Services, Motor Carrier, Transportation Safety, Public Transit, Rail, and safety.

ODOT – Highway Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,186,880,665	1,304,641,472	1,311,606,111	1,560,004,920
FTE	2,668.46	2,611.75	2,564.51	2,571.62

Program Description

The purpose of the Highway Division is to design, build, maintain and, preserve quality highways, bridges, and related system components. The Highway Division is derived from a comprehensive set of long-range multi-modal transportation system plans and policies developed and maintained under the direction of the Oregon Transportation Commission. The plans cover highways, mass transit, ports, freight and passenger rail, bike lanes, and pedestrian needs. The *Statewide Transportation Improvement Program* (STIP) is a project funding and scheduling document developed through planning processes involving local and regional governments, transportation agencies, and the interested public. It is updated every two years through a public hearing process. Organizationally, the Highway Division is administered and delivered through the five regional offices and the headquarters office of the Technical Services Division. The agency acquires most of its own right-of-way and completes most of the engineering design work but contracts with private companies for the actual construction of the projects. The categories of the Highway Division budget are Maintenance; Preservation; Bridge; Safety; Operations; Modernization; Special Programs; Local Government; and Utility Permits.

Revenue Sources and Relationships

Highway programs are supported by state, federal, and local funds. The majority of the Federal Funds available for highway programs are Federal Highway Administration funds. State funds include fuel tax receipts, weight mile taxes, vehicle registration, and Highway User Revenue Bonds. Local funds are provided by cities and counties for projects funded by the local entity or that the local entity is paying ODOT to do part or all of the work on projects or is contributing to a state project.

Highway program activities are funded primarily from Federal TEA-21 funds and the State Highway Fund. The following table shows how funding levels have changed since 1997-99.

Funds	1997-99 Actual	1999-2001 Actual	2001-03 Estimated	2003-05 Governor's Recommended
Federal as Other	$580,089,894	$550,693,504	$573,063,976	$654,569,066
State Other	710,589,094	709,403,601	784,080,615	$1,067,012,507
State Revenue Bonds	0	58,515,056	350,000,000	150,000,000
Total Funds	**$1,290,678,988**	**$1,345,664,793**	**$1,707,144,591**	**$1,871,581,573**

Budget Environment

The basis of highway funding (gas tax, weight-mile taxes and vehicle registration fees) have not, except for the additions specific to the Oregon Transportation Investment Act, increased in a decade. State and federal fuel tax revenues supporting highway programs have not kept pace with needs. State highways make up about 10% of total road miles, but carry 60% of the traffic – more than 56 million vehicle miles a day. More people are driving more cars. About 74% of commuters drive alone to and from work. Congestion is getting worse, especially on urban freeways. Oregon's state highway system is an essential factor in maintaining a strong economy in the state. Commercial trucks rely on state highways for both short and long haul freight movements. The Highway Division budget includes the part of the latest *Statewide Transportation Improvement Program* (STIP) to be expended during the 2003-05 biennium. The STIP is developed biennially with extensive public involvement throughout the state. Federal regulations require the STIP to include only projects for which the state can reasonably expect adequate funding. The 2002-05 STIP was developed on a funding level of approximately $1.6 billion. Over 75% of the funding for the projects are federal sources. Other sources include over $470 million in state highway funds primarily made available through the sale of $500 million in bonds to finance transportation system modernization, pavement preservation, and bridge preservation projects and the remainder is made up of local government funds.

Oregon's population is aging. Ensuring mobility for older citizens requires creative solutions, for instance innovative traffic control devices such as more visible pavement markings, traffic signals and signing. Environmental concerns are requiring changes to practices and additional work to accomplish traditional activities.

Governor's Budget

The Governor's recommended budget of $1.5 billion Other Funds is $248.4 million more than the 2001-03 legislatively approved expenditure level. The recommended budget reflects increased spending for highway construction projects as a result the 2001 Legislature's Transportation Investment funding. Specific budget changes are described in the individual Highway Division program units.

ODOT – Highway Maintenance and Emergency Relief

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	289,245,178	284,186,764	289,975,669	303,940,591
FTE	1351.76	1312.07	1311.08	1227.03

Program Description

The purpose of the Highway Maintenance program is to maintain, repair, and extend the service-life of the 7,500-mile state highway system by surface patching and bridge repair; upkeep of adjacent shoulder, drainage, landscape, and rest areas; snow removal; and sanding of roads. Maintenance may include replacing materials necessary to make highways safely usable (such as signs) but does not generally include reconstruction. Highway maintenance includes maintaining the buildings and equipment used by ODOT employees. Department personnel do most of the highway maintenance work, in contrast to construction work, which is all contracted out to private companies. Highway maintenance also includes emergency repairs to highways; roads that suffer serious damage from natural disasters such as earthquakes and floods. The Federal Highway Administration Emergency Relief program supplements state resources in case of damage to the Federal Aid Highway System. Application for these federal funds requires a declaration of emergency by the Governor and damage must generally exceed $700,000 from a single event.

Budget Environment

There is constant upward pressure on maintenance budgets as the highways age and the vehicle miles traveled on them increase. Roads have not been maintained in the condition called for in the Department's planning statements. Maintenance needs are estimated on the basis of current expenditures by assuming that current maintenance practices will continue into the future. The assumption does not take into account the usage or aging of the system or catastrophic natural events. The Department routinely surveys all roads, bridges, and connecting surfaces under its maintenance jurisdiction and grades their condition. Much of Oregon's highway system is growing old, resulting in larger more complex maintenance projects. Deferred bridge, operations, and pavement preservation projects increase maintenance needs. Limited resources for preventative maintenance that would minimize damage from natural disasters restrict the amount of work that can be done to protect highways or bridges against a major event. Increased traffic volume is causing faster than expected deterioration and driving up costs around work sites. Inflation is another significant cost driver since maintenance is dependent on materials to accomplish most activities. New environmental regulations and restrictions require costlier practices and materials. ODOT estimates it would need an additional $39 million per year to fully meet maintenance needs.

Governor's Budget

The Governor's recommended budget of $304 million Other Funds is $13.9 million more than the 2001-03 legislatively approved expenditure level. The primary changes are adjustments that reflect $11.5 million Other Funds for increases in employee compensation and merit increases; $10.4 million for other payroll expenses related to increases in employee compensation, and the phase in of $1.2 million in capital outlay to accommodate biennial updates to the Fleet Replacement Plan. The base budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim and to reflect reduced revenues. The recommended budget transfers 88 positions (73.38 FTE) to other highway programs and reduces expenditures by $10.2 million Other Funds to balance to current revenue. The recommended budget also adds $1 million Other Funds and 8 positions (7.36 FTE) to support increases in demand and work complexity for highway access permitting activities. The positions are proposed to be supported by increases in an administrative fee paid by applicants implemented in January 2003.

ODOT – Highway Preservation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	214,511,377	284,237,175	288,252,159	313,098,216
FTE	24.03	245.47	245.39	241.17

Program Description

The Preservation Program rehabilitates existing facilities to extend their service life. The program strives to do resurfacing treatments at the most cost-effective time in the life cycle of a pavement, typically within eight to 12 years.

Budget Environment

ODOT has been collecting pavement condition information since 1976. In 1976, Oregon's highways were in poor condition with only 51% rated fair or better. Conditions improved to a high of 83% rated fair or better in 1993. Although the current level is slightly improved over the last biennium, conditions have dropped to the current level of 78% fair or better since 1993. Costs escalate as road conditions deteriorate into the "poor" category. In 2001 the pavement condition increased to 81% fair or better. The increase is due to changes in the way "low volume" Region and District Level highway pavements are managed. The Department reports this is a short term spike only and expects conditions to decline approximately 2% by the end of 2003. Long term estimates show that pavement conditions will continue to decline through 2007. Funds made available through the Oregon Transportation Investment Act of 2001 (OTIA) will increase statewide pavement conditions approximately 1% in the short term. Because OTIA directs its pavement funds to District level highways; higher volume and higher classification highways will not receive any OTIA funding.

Governor's Budget

The Governor's recommended budget of $313 million Other Funds is $24.8 million higher than the 2001-03 legislatively approved expenditure level. The recommended budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim. The budget is also reduced by $12.1 million to reflect changes in contractor payments for STIP projects. The recommended budget adds $36 million Other Funds for implementation of preservation projects from bond proceeds approved by the 2001 Legislature and adds one Transportation Engineer 2 at salary range 30 (0.92 FTE) to address plans and document strategies for access management issues related to preservation. The position is supported by shifting services and supplies money to personal services for no impact on expenditures. The recommended budget also reduces services and supplies by $2.5 million Other Funds to support an intrafund transfer to Capital Construction for construction of a new maintenance station facility. The remaining changes in the recommended budget reflect an increase of $3.4 million for employee compensation and merit increases.

ODOT – Highway Bridge

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	118,093,066	128,997,381	133,563,279	227,343,319
FTE	17.83	149.58	142.54	142.17

Program Description

This program preserves more than 2,600 bridges, tunnels, and culverts on the state highway system. There are two generations of bridges in Oregon; those built in the 1930s and those built in the 1960s. The program includes: repairing structural deterioration; raising bridges to increase vertical clearance; major bridge painting; repairing and preventing streambed scouring near bridges; protecting bridges from earthquake damage; repairing and protecting bridges against corrosion damage; upgrading electrical and mechanical systems in movable bridges; and making safety improvements such as installing new railings and widening bridges.

Budget Environment

A large number of bridges are nearing the end of their expected life and need repair or replacement. Twenty-three percent of state-owned bridges are more than 50 years old and require extensive rehabilitation and/or replacement. Bridge projects are more costly and variable than highway work of comparable length. ODOT estimates that bridge needs are funded at $68 million per year less than needed to keep pace with normal wear and tear. At $75 million per year ODOT can address 35 of the 75 bridges that need to be replaced or rehabilitated annually. ODOT estimates that 16 to 18 bridges will require emergency repair annually.

Governor’s Budget

The Governor’s recommended budget of $227 million Other Funds is $93.7 million higher than the 2001-03 legislatively approved expenditure level. The recommended budget adds $43.7 million Other Funds to implement bridge preservation projects from bond proceeds approved by the 2001 Legislature, $600,000 Other Funds to extend the interagency agreement with the Division of State Lands to expedite the processing of Removal and Fill Permit applications for ODOT projects; and adds one Transportation Engineer 2 at salary range 30 (0.92 FTE) to address plans and document strategies for access management issues related to bridge projects. The position is supported by a reduction in services and supplies and an increase in personal services for no impact on expenditures. The recommended budget also reflects transferring in $1 million Other Funds and four positions from the Transportation Program Development Division to address increased STIP project volumes. The recommended budget is adjusted by an increase of $44.6 million Other Funds to reflect anticipated contractor payments in the 2003-05 biennium. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $2.1 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $1.7 million Other Funds.

ODOT – Highway Safety

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	38,335,574	44,199,583	51,773,979	46,911,230
FTE	9.64	47.25	43.21	42.92

Program Description

The Safety Program identifies sections of state highway where the most fatal and serious injury accidents occur. Accidents are analyzed to find the most optimal corrective actions to be taken by the Department. Corrections include such things as additional lanes, turning refuges, speed limit changes, sign changes, or access control.

Budget Environment

Increases in population have created more traffic, in turn creating more congestion and consequently more accidents. Funding targets high crash locations and is often combined with preservation projects. Stand-alone safety projects address specific crash types. To free up funds for safety improvements in critical areas, selected preservation projects may be scaled down to minimum design standards if there is not a history of accidents for that site. With expected growth in vehicle miles traveled, there is a potential for increased fatalities without focused investment. There are over 670 unique high crash locations on the state highway system and approximately 1,650 roadway miles of the state highway system with a priority safety designation. This means that these sections have a history of fatal and severe injury crashes.

Governor's Budget

The Governor's recommended budget of $46.9 million Other Funds is $4.8 million less than the 2001-03 legislatively approved expenditure level. The recommended budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim. The recommended budget also reflects applying standard inflation rates for services and supplies and state government service charges at $481,983 Other Funds; cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $406,161 Other Funds; and a phase out of $5.7 million Other Funds in STIP project payment adjustments. The recommended budget adds one Transportation Engineer 2 at salary range 30 (0.92 FTE) to address plans and document strategies for access management issues related to Transportation Safety. The position is supported by a shift of money from services and supplies to personal services for no impact on expenditures.

ODOT – Highway Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	31,339,662	56,685,879	56,863,272	35,935,619
FTE	14.42	180.08	110.95	119.25

Program Description

Highway Operations includes planning, development, and maintenance of improvements to relieve or prevent traffic congestion. Programs include intelligent transportation systems; transportation system management, including interconnected traffic signal systems, new traffic signals, ramp metering, signs, and electronic variable message signs; incident management, including rock fall and slide repairs; and demand management, including ride share, van pool, and park and ride programs. Operational projects are one way to maximize the efficiency of the state highway system using available funds, leading to safer traffic operations and greater system reliability.

Budget Environment

Increasing populations and limited funding place more reliance on system efficiency tools to increase safety and manage congestion. Community land-use patterns and access between properties and on transportation systems within communities has the greatest impact on transportation efficiency. ODOT estimates current funding is $14 million less than needed to replace signs, signals and lighting, do preventive work on slides and rock fall and employ technology to help solve congestion and safety problems. Highway Operations activities are prioritized utilizing the Oregon Information Technology Systems Strategic Plan.

Governor's Budget

The Governor's recommended budget of $35.9 million Other Funds is $20.9 million less than the 2001-03 legislatively approved expenditure level. The budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim. The recommended budget reflects a reduction of $4.3 million Other Funds to adjust the other payroll expenses related to compensation plan adjustments; scheduled merit increases and phase outs of $15.5 million in STIP project payment adjustments and $2.1 million to transfer the Transportation Operations Center to Special Programs. The recommended budget adds a Transportation Engineer 2 at salary range 30 (0.92 FTE) to address plans and document strategies for access management issues related to Operations. The position is supported by a reduction in services and supplies and an increase in personal services for no impact on expenditures. The recommended budget shifts $85,891 Other Funds from services and supplies to Central Services to help pay for adding an Information Systems Specialist position to maintain Information Transportation System (ITS) devices in Region 5 and transfers $81,804 Other Funds and one position to Special Programs to address increased STIP project volumes. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges increasing the budget by $1.2 million Other Funds.

ODOT – Highway Modernization

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	238,515,033	169,483,421	153,971,032	256,046,292
FTE	16.89	203.63	201.83	181.92

Program Description

The Modernization program designs and builds highway improvements that add capacity to accommodate current or projected traffic growth. This includes adding traffic lanes for passing and climbing, turning, accelerating and decelerating; building new road alignments or facilities, including bypasses; reconstructing roads with major alignment improvements or major widening; and widening bridges to add travel lanes.

Budget Environment

Modernization needs are calculated by combining current traffic conditions with projections of future highway demand. Since 2001, ODOT has shifted its emphasis from modernization to preservation of roads and bridges. Several modernization projects programmed in the STIP after 2001 were placed on hold. Proposed expenditure limitations reflect state-matching funds for federal earmarked projects provided through TEA-21; projects already underway; and projects in the 2003-05 STIP. From 1998 until 2002, funding had been at the state minimum of approximately $102 to $108 million per biennium meeting approximately 14% of the need for increased capacity. With OTIA bond proceeds and more federal/local dollars directed at the program, the 2003-05 recommended budget increases Modernization funding by about 45%. OTIA funds will allow the contracting of approximately 40 additional modernization projects. In order to meet the 20-year need identified in the Oregon Highway Plan, approximately $390 million per year would need to be provided. While the influx of revenue from the OTIA bills will assist in meeting this need in the short term, the funding level is far below what is needed to meet the challenges brought about with Oregon's growing population.

Governor's Budget

The Governor's recommended budget of $256 million Other Funds is $102 million higher than the 2001-03 legislatively approved expenditure level. The budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim. The recommended budget reflects standard inflationary adjustments for other payroll expenses related to compensation plan adjustments; scheduled merit increases at $77,615 Other Funds; and a phase in of $35.7 million Other Funds for STIP project payment adjustments. The recommended budget adds $66.3 million to implement Modernization projects from bond proceeds approved by the 2001 Legislature and one Transportation Engineer 2 at salary range 30 (0.92 FTE) to address plans and document strategies for access management issues related to Modernization. The position is supported by a reduction in services and supplies and an increase in personal services for no impact on expenditures. The recommended budget reduces overtime payments by $1.5 million to balance current revenue projections to expenses. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $1.4 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $77,615 Other Funds.

ODOT – Highway Special Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	132,506,213	170,390,051	166,740,363	162,434,641
FTE	1212.74	451.83	487.67	582.72

Program Description

A number of smaller special programs present unique challenges to Oregon's Highway Program. Positions associated with some of the work in these programs are generally budgeted in other highway program areas and reimbursed for services performed in these categories. These payments are in turn used to backfill program staff with contracted work for current services. In activity areas where no FTE are assigned, the level of support is a small part of multiple positions and varies from year to year. Special program activities include:

- ***Oregon Plan for Salmon and Watersheds*** identifies how state and federal agencies will restore threatened or endangered salmon species and meet the requirements of the Clean Water Act. Projects include highway culverts, opening tide gates, and other improvements to help fish affected by Oregon highways.
- ***Environmental Services*** provides support to help ODOT comply with the National Environmental Policy Act and more than 40 other environmental laws and regulations covering air quality, acoustics, archaeology, cultural resources, energy, hazardous materials, biology, threatened and endangered species, wetlands, water quality, and visual impacts.
- ***Pedestrian and Bicycle*** (2.0 FTE) insures compliance with state law requiring reasonable amounts of highway funds to be spent on footpaths and bicycle trails. This activity includes a local assistance grant program for these types of improvements.
- ***Winter Recreation Parking*** (12.33 FTE) pays for snow removal and enforcement at designated winter recreation area parking locations. Revenue for this program comes from selling Sno-Park permits.
- ***Snowmobile Facilities*** develops and maintains snowmobile facilities including buying land and enforcing registration, operation, and equipment requirements. Revenues come from registration fees and fuel taxes attributed to snowmobile use.
- ***Reimbursables*** (38.0 FTE***)*** recovers costs associated with work done by ODOT. The work includes damage to highway structures; services to public agencies; citizens and businesses not associated with STIP projects; real estate sales or purchases associated with transferring management service staff far from their present homes; and the purchase and resale of favorably priced fuel to other state agencies.
- ***Civil Rights*** (7.0 FTE) manages ODOT's federally mandated affirmative action program.
- ***Surplus Property*** (11.0 FTE) leases and sells property acquired by ODOT for highway construction projects when it no longer has a present or future use to the Department.
- ***Rights-of-Way for Other Agencies*** recovers costs associated with providing department staff resources who have expertise in right-of-way acquisition to acquire required rights-of-way for local agencies who do not have the staff resources to do the work for their construction projects. Costs are recovered from the project.
- ***Immediate Opportunity Fund (IOF)*** gives matching grants of up to $500,000 to industrial companies that need to build or improve roads to serve new or expanded plants that will maintain or create jobs.
- ***Administration*** (52.2 FTE)***, Materials Testing Lab*** (29.75 FTE)***, and Indirect Services*** (249.09 FTE) are costs incurred for a common or joint purpose that benefit more than one project or service and cannot be effectively or easily charged directly to individual projects or services. These costs include management, supervision, and administrative control of the agency; awards programs; and non job-related time such as contract negotiations, office expenses, facilities costs, training and education, work planning, service contracts, crew team and safety meetings, quality assurance, and quality control.
- ***Highway Deputy Directors, Highway Finance and Office of Project Delivery*** (23.14 FTE) includes support staff (2.0 FTE) for the Highway program Executive Deputy Director; direct highway financial support (15.0 FTE) including budget, funds and grant tracking, financial coordination for regions, report writing, and financial analysis;
- ***Project Delivery*** (81.78 FTE) focuses on work needed to develop construction projects, primarily preliminary engineering.
- ***Other Special Programs*** (4.0 FTE) contains miscellaneous expenses such as work on bridges, facilities and roads of historical interest, safety rest areas, district office facilities work, independent wetland mitigation, and miscellaneous tourist signing.
- ***Highway Management*** (15.3 FTE) includes speed zone studies, signal timing, and traffic investigations including crash sites.
- ***Traffic Operation Centers and COMET*** (44.13 FTE) includes the dispatch centers in Region 1, 2, 3, and 4. The dispatch centers send employees to incidents. In Region 2 the center also maintains signal timing. The COMET contains a fleet of vehicles that travel throughout the METRO to keep traffic flowing. The program focuses on getting accidents, stalled vehicles, and debris off the road and clear for travel.

Governor’s Budget

The Governor’s recommended budget of $162.4 million Other Funds is $4.3 million less than the 2001-03 legislatively approved expenditure level. The recommended budget provides $15.7 million Other Funds for increases in employee compensation and merit increases; applies the standard inflation rates for services and supplies and state government service charges at $2.1 million Other Funds; and removes $22.8 million Other Funds to reflect adjustments in STIP project payments. The recommended budget reflects $83,918 Other Fund reduction as a result of the Governor’s decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above. The recommended budget adds 67.22 FTE from other highway programs for a $3 million increase in personal services. The increase is offset by a decrease of $3.7 million Other Funds in services and supplies and capital outlay. The recommended budget includes the following policy option packages:

- An increase of $135,489 Other Funds and two limited duration (1.25 FTE) contractor coordinator positions to complete OTIA personal service contracts;
- An increase of $454,489 and one Program Technician 1 at salary range 23 (0.92 FTE) to perform project related research, supported by an increase in administrative fees paid by applicants implemented in January 2003;
- Reclassification of a Program Technician 2 to Principal Contributor 1 and Administrative Specialist 1 to Program Technician 1, supported by a shift of $6,878 from services and supplies to personal services resulting in no increase in expenditures;
- A transfer of $1 million Other Funds through intrafund transfer to the Capital Construction program unit to pay for the construction of a new maintenance station garage, intrafund transfers are made in revenue categories impacting expenditures by reducing the amount of revenue available for projects;
- An increase of $338,600 Other Funds to restore expenditure limitation and two positions (2.0 FTE) related to the Outdoor Advertising Fee in the agency’s fee bill; and
- An increase of $537,156 Other Funds and four positions (3.67 FTE) beginning September 2003 to lead and oversee all activities necessary for the development and administration of outsourced contracts and to assess needs and implement processes for project contracting.

ODOT – Highway/Local Government Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	124,334,562	161,861,218	165,866,358	209,532,753
FTE	21.15	21.84	21.84	21.44

Program Description

The purpose of the Local Government Program is to work in a cooperative venture with cities, counties, and regional planning agencies to insure priority transportation needs are met. ODOT provides federal revenues and reimbursements to local governments for surface transportation, local bridges, congestion mitigation, transportation enhancements, and planning. The Legislature mandated $1 million in state gas tax revenues be distributed among cities under 5,000 population. ODOT shares a portion of its Federal Funds with counties and cities outside the Portland metropolitan area whose population is greater than 5,000. The Portland metropolitan area gets a specific amount through a separate federal appropriation dedicated to population areas over 200,000 called a Transportation Management Area.

Budget Environment

Local governments face the same critical transportation issues as the state. Pressure on property taxes and local general funds combined with no increases in state funding have left local communities with fewer resources for transportation. ODOT provides for a Local Government Fund Exchange program that allows local governments to exchange $1 of their federal fund allocation for 94 cents in state highway funds. Exchanging federal funds for state funds helps local agencies avoid complicated federal contracting regulations and ensures that all federal funds are expended within required timelines. The amount of funds available for exchange is determined annually by ODOT. Local Governments may need to accumulate funds over several years to pay for large projects.

Governor’s Budget

The Governor’s recommended budget of $209.5 million Other Funds was $43.7 million more than the 2001-03 legislatively approved expenditure level. The budget is adjusted to reflect reallocation of expenditure limitations among Highway Programs approved by the Emergency Board during the interim. The recommended budget adds $40 million to implement Local Government projects from bond proceeds approved by the 2001 Legislature. The recommended budget also increases the Other Funds expenditure limitation by $1.5 million and 7 positions (6.44 FTE) to meet workload needs driven by increases in project volume and scope of work. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $965,908 Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases reducing $196,590 Other Funds from the budget.

ODOT – Utility Permits

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	4,600,000	4,600,000	4,762,259
FTE	0.00	0.00	0.00	13.00

Program Description

The purpose of the Utility Permit Program is to issue permits to utility companies for conducting activities on state highway rights-of-way.

Budget Environment

Historically, ODOT used the Highway Fund to support the cost of issuing and administering these permits. In January 2001, after a review of the use of Highway Fund revenues, the Oregon Attorney General advised ODOT that utility permit costs are not an appropriate use of the Highway Fund. The 2001 Legislature authorized ODOT to charge a utility permit fee and directed the Department to adopt rules establishing a fee schedule. The schedule was put into effect in January 2002. A lawsuit is pending challenging the permit fees.

Governor's Budget

The Governor's recommended budget of $4.76 million Other Funds is $162,259 more than the 2001-03 legislatively approved expenditure level. The recommended budget adjusts the base budget to phase out the entire Utility Permit Program and restores the reduction in a policy package as part of the agency's fee bill for ratification by the Legislature. The package restores $4.76 million in Other Funds and moves 13 positions (13.00 FTE) from the Maintenance Program. The positions are supported by a decrease in services and supplies and an equal increase in personal services. The expenditure limitation is increased by the standard inflation rate of 3.5%.

ODOT – Driver and Motor Vehicles

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	129,228	152,882	0	0
Other Funds	114,845,588	118,561,516	125,251,326	126,813,500
Total	**114,974,816**	**118,714,398**	**125,251,326**	**126,813,500**
FTE	863.25	855.05	860.79	829.72

Program Description

Driver and Motor Vehicles (DMV) licenses and registers over 6.5 million drivers and motor vehicles and enforces motor vehicle-related laws. There are 64 DMV offices statewide serving more than 13,000 walk-in customers each day. In addition, DMV personnel process more than 10 million transactions and respond to over 1.8 million phone inquiries each year. Law enforcement agencies access DMV computer information files more than 41,000 times each day, and businesses and individuals make about 4 million DMV record requests each year.

Revenue Sources and Relationships

DMV is supported from fees levied for the various services it provides. Passenger vehicle registration fees are the largest single revenue collected, followed by driver licenses, and truck and trailer licensing fees. Together these revenues represent 96% of total estimated 2003-05 DMV gross revenue collections ($332.8 million). The 2001 Legislature approved a number of fee increases to cover the cost of providing services that were previously subsidized by passenger vehicle registration and licensing fees. Revenue in excess of amounts needed to cover

DMV operating costs is transferred to the State Highway Fund and other agencies as mandated by law. Approximately 64% of the revenues collected are projected to be transferred to the State Highway Fund and other agencies.

Budget Environment

During the 2001-03 biennium, DMV focused on improvements to driver safety programs, identify theft, workload, automation, and privatization initiatives. In 1999, the Legislature directed DMV to study the effects of aging on driving and report recommendations to the 2001 Legislature. As a result, the 2001 Legislature adopted HB 3071 requiring health care providers to report at-risk drivers to DMV. During 2001-03, DMV began working with health care providers that are required to make reports to DMV of at-risk drivers to develop administrative rules to implement the legislation. DMV will continue to develop a comprehensive approach to managing the identification and testing of impaired drivers and evaluate the effectiveness of driver improvement programs.

The role of DMV in providing identity documents is increasing as a result of the escalation in identity theft crimes and the 2001 terrorist attacks. National efforts at uniformity for driver licenses and identity cards will require DMV to be connected to national databases and may require the collection of biometric data on drivers. Both initiatives will require resources not currently funded.

The number of transactions DMV processes has remained fairly flat over the last three years. This is projected to continue into the 2003-05 biennium. This is the result of the statewide economic downturn along with the implementation of legislation that reduced the frequency of transactions by lengthening the term of driver licenses and new vehicle registrations.

Current revenues are insufficient to maintain current activity levels for programs funded with Highway Fund revenue. The effect of staff reductions on activity levels will require DMV to continue to increase its productivity through automation, process improvement, privatization, and law and rule changes. By the end of the 2001-03 biennium DMV will launch vehicle registration renewals via the Internet and a privatization initiative with vehicle dealers to allow direct access to DMV computers for vehicle registration and title transactions.

Governor's Budget

The Governor's recommended budget of $126.8 million total funds is $1.5 million more than the 2001-03 legislatively approved expenditure level. The 2001-03 expenditure levels are maintained by reducing the budget $6.5 million and eliminating 24 positions (22.0 FTE). The primary impact of the proposed reduction is to eliminate the special handling of dealer transactions increasing customer wait times and service quality. Core program services will continue. The budget supports adjustments for fleet replacement of $86,990 Other Funds in capital outlay and for Law Enforcement Data System agreement costs of $101,695 Other Funds in services and supplies. The recommended budget also phases in $116,568 Other Funds in professional services for the Motor Carrier Drug Testing program which is supported by the Transportation Operating Fund. In addition the budget phases out $1,228,326 Other Funds for one-time expenditures related to Emergency Board actions and shifting one position to Central Services for administrative rules coordination.

The recommended budget establishes a permanent Program Technician 1 position at salary range 23 (1.0 FTE) to continue work related to requirements of implementing HB 3071 for medically at-risk drivers currently being performed by a limited duration position. Costs to establish the permanent position would be supported by a corresponding reduction in other personal services expenditure categories. The recommended budget adjusts the base budget to phase out the Recreational Vehicle Show license fee, reducing the current service level by $6,240. The recommended budget restores $6,240 Other Funds to include the Recreational Vehicle Show license fee in the agency's fee bill for ratification by the Legislature. The 2001 Legislature directed the Department to establish a fee to recover costs associated with this program. The Financial Responsibility Fee is also established in a policy package for ratification by the Legislature. The recommended budget reflects $7,629 Other Fund reduction as a result of the Governor's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $3 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $5.8 million Other Funds.

ODOT – Motor Carrier Transportation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	11,193	0	0	0
Other Funds	35,617,277	35,668,414	44,139,277	45,714,737
Federal Funds	2,903,211	6,156,557	6,182,863	6,232,167
Total	**38,531,681**	**41,824,971**	**50,322,140**	**51,946,904**
FTE	305.05	281.79	338.79	324.00

Program Description

The Motor Carrier Transportation Division (MCTD) is responsible for administering and enforcing laws related to motor carriers including regulations related to commercial vehicle registration, safety, and weight-mile tax regulation. MCTD processes over-dimension permits and performs size and weight enforcement functions that previously were part of the DMV's responsibility prior to the mid-1990s. MCTD also administers rules and regulations governing commercial vehicle weights and measures, operating at six ports-of-entry and at 52 permanent scales and 29 portable scale sites.

Revenue Sources and Relationships

Revenues from weight mile taxes, commercial vehicle registrations, and permits provide the primary resources to support this division. All revenue in excess of the amount required for carrying out the regulatory and safety programs is transferred to the State Highway Fund. Approximately 89% of the revenues collected are transferred to the State Highway Fund. Over $6 million in Federal Funds is projected in the 2003-05 biennium for commercial vehicle safety enforcement efforts under the Motor Carrier Safety Assistance Program (MCSAP). The MCSAP program requires a 20% state match. Current program expenditures contributes to the 20% match requiring no financial outlay from the state. Law enforcement and local government MCSAP recipients provide their own match.

Budget Environment

Current revenues are insufficient to maintain current activity levels for programs funded with Highway Fund revenue. The effect of staff reductions on service levels will require the Motor Carrier Transportation Division (MTCD) to reduce hours for registration services at Ports of Entry and close two field registration offices. MTCD's effectiveness to enforce weight regulations to control heavy truck damage to pavement and bridges will be impacted.

A February 2002 Secretary of State Audit report concluded that MTCD places too much emphasis on weighing a high volume of trucks traveling on the state's major traffic arteries. Auditors believe there is a greater problem with overweight trucks on secondary roads. MTCD reports that implementing the audit report recommendations would lead to fewer total truck weighings in Oregon, fewer scale crossing records available to weight-mile tax auditors for verifying road-use tax reports, fewer scale crossing records available to safety inspectors for verifying driver logbooks, and possibly more out-of-state truckers operating without Oregon credentials. Without the data, the accuracy of cost responsibility studies may be questionable and revenue collections are at risk of declining from lack of enforcement through the audit process. MTCD implemented many of the audit recommendations and is ensuring the maximum number of trucks are being weighed.

Governor's Budget

The Governor's recommended budget of $52 million total funds is $1.6 million more than the 2001-03 legislatively approved expenditure level. The 2001-03 expenditure level is maintained by reducing the budget $3.6 million and eliminating 15 positions (24.52 FTE). A portion of the reduction eliminates $1.8 million Other Fund expenditure limitation and eliminates 13 positions (13.0 FTE). The recommended budget is adjusted to phase out the International Fuel Tax Agreement (IFTA) license fee, reducing the budget by $1.8 million and 2 positions (11.52 FTE). The recommended budget restores Other Funds expenditure limitation and positions to include the IFTA license fee in the agency's fee bill for ratification by the Legislature. The 2001 Legislature directed the Department to establish a fee to recover costs associated with this program. The recommended budget reflects $6,597 Other Fund reduction as a result of the Governor's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $681,462 Other Funds and $32,615 Federal Funds; an adjustment reducing the budget by $128,472 Other Funds and $50,028 Federal Funds for fleet acquisition and transferring the drug testing program to DMV; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $2.8 million Other Funds and $66,717 Federal Funds.

ODOT – Transportation Development

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	183,143	220,346	0	0
Other Funds	52,991,465	56,894,072	62,555,718	64,005,347
Federal Funds	129,143	169,476	175,958	184,338
Total	**53,303,751**	**57,283,894**	**62,731,676**	**64,189,685**
FTE	125.25	182.17	223.83	222.83

Program Description

The Transportation Development Division operates through four sections:

- ***STIP Development*** (21.0 FTE) coordinates identification and prioritization of the Department's four-year Statewide Transportation Improvement Program (STIP) development process. The STIP is updated every two years with ongoing public, local government, and stakeholder involvement. The unit identifies projects using pavement, bridge, and safety condition assessment tools. ODOT regions use the project lists developed through these systems to work with local area stakeholders to establish the prioritized project list.
- ***Technical Assistance and Coordination*** (17.92 FTE) is provided to local governments on periodic comprehensive plan reviews, Community Transportation System Plan reviews, and to Metropolitan Planning Organizations (MPO), Area Commissions on Transportation (ACT), and the Community Solutions Team. The unit supports field staff in day to day permitting functions during project design and delivery and on access management issues. The unit also maintains data and shares transportation-related information with federal, state, and local agencies through the Technology Transfer Center.
- ***Statewide and Regional Studies*** (65.0 FTE) guides and supports short- and long-range planning for Oregon's transportation system and administers the statewide Planning and Research Program that directs activities funded by the Federal Highway Administration. The Department adheres to a formal, long-term process that produces, and periodically updates a long-range strategy, reported in the Oregon Transportation Plan (OTP). The Section is responsible for the Department's planning activities which focuses on five areas of need: urban mobility, rural accessibility, freight transport productivity, safety, and finance. The goals, policies, and proposed actions are translated into specific projects and activities driving toward an integrated transportation system. Specific construction activities are described in the STIP. Other sources of information and criteria for this process are the federal TEA-21, federal clean air, water, and energy acts, state benchmarks, and land use planning goals. Analytical services related to corridor planning, transportation system studies, public transit services, and traffic analyses support the planning process.
- ***Transportation Analysis and Research*** (118.91 FTE) provides policy and economic analysis and forecasting, analyzes initiatives and issues, conducts strategic planning, researches new technologies, coordinates opinion surveys, supports performance measure tracking and special studies, and coordinates and tracks public involvement/outreach programs for the Department. This unit also manages and analyzes transportation data to support planning, construction and maintenance, and resource deployment. Data collection and analysis include Oregon Transportation Management System's crash data, transportation inventory/classification, mapping/geographic information systems services, and transportation systems monitoring.

Revenue Sources and Relationships

General planning activities are funded from state and federal highway funds and federal planning grant moneys. Revenue transfers from the highway program, for example, support highway planning, system studies and monitoring, and data gathering.

Budget Environment

ODOT provides funds each year for local government planning activities including Metropolitan Planning Organization plans (MPO), local Transportation System Plans (TSP), and transportation growth management tools. Population growth is outpacing ODOT planners' abilities to fully participate in both state and local planning processes. Based on the 2000 U.S. Census, MPOs in Corvallis and Bend are being created.

Transportation system analysis is constantly changing as questions are raised involving the interaction between land use economics and transportation. There is currently no available expert charged with the responsibility to ensure proper and consistent application of transportation engineering principles and analysis for transportation system planning, solution selection, and project development.

The program focuses workload on expanding planning and policy matters related to the linkage of transportation and land use, local government transportation system plan reviews, and corridor plan reviews. These work efforts affect the Department's ability to respond to the needs of local governments and provide the needed projects.

Governor's Budget

The Governor's recommended budget of $64 million total funds is $1.5 million more than the 2001-03 legislatively approved expenditure level. The 2001-03 expenditure level is maintained by reducing the budget $1 million Other Funds and transferring 4 positions (4.0 FTE) to the Highway Bridge program. The reduction will reduce statewide and regional studies and technical assistance for MPOs. The recommended budget is also adjusted by reducing $1.9 million Other Funds to phase out a one-time grant expenditure and a special payment that had supported the Governor's office. The recommended budget reflects $19,604 Other Fund reduction as a result of the Governor's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above.

The Governor recommends approval of the following policy packages:

- Adding two positions (1.84 FTE); an Engineering Specialist 1 position (salary range 16) and an Associate Transportation Engineer position (salary range 25) to conduct traffic monitoring activities, supported by a decrease of $175,793 in professional services expenditure limitation;
- Adding a Transportation Engineer 3 (0.92 FTE) at salary range 33 to act as the agency expert in transportation engineering analysis providing statewide quality control and training for system planning, solution selection, and project development, supported by a decrease of $147,714 in professional services expenditure limitation;
- Increasing the Other Funds expenditure limitation by $80,850 to increase a half-time Transportation Engineer 2 position to full-time (0.50 FTE) to support development of new technical training aimed at public works employees and supervisors in public works occupations, supported by federal and local government funds;
- Adding a Planner 3 (0.92 FTE) at salary range 29 to shift responsibility and oversight of the Highway Cost Responsibility Study from the Department of Administrative Services (DAS) to ODOT, supported by highway funds used to reimburse DAS for the study ($303,060); and
- Implementing a rent pilot program for the Mill Creek Office Building at $396,393 for Transportation Program Development, supported by decreases in other services and supplies expenditure items.

The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for services and supplies and state government service charges at $1.2 million Other Funds and $1,375 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $3.2 million Other Funds and $7,005 Federal Funds.

ODOT – Public Transit Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	9,032,090	9,253,009	7,782,962	7,003,437
Other Funds	3,289,415	9,644,413	13,239,624	11,434,614
Federal Funds	11,298,424	26,995,470	27,022,379	27,120,323
Total	**23,619,929**	**45,892,892**	**48,044,965**	**45,558,374**
FTE	12.96	13.04	13.04	14.00

Program Description

The Public Transit Division develops and encourages the use of transit, ridesharing, walking, bicycling, telecommuting, and other alternatives to driving alone. The Division operates five program areas:

- ***Community Transit*** (6.0 FTE) manages three grant programs: 1) the statewide Small City and Rural Transit federal grant program that provides transit grants to communities under 50,000 population; 2) the Special

Transportation Fund program distributing state cigarette tax and General Fund to local governments for transportation services benefiting elderly and disabled people; and 3) the statewide Senior and Handicapped Capital federal grant program, which funds the purchase of vehicles and other equipment for special needs transportation. Staff coordinate efforts with other state agencies, providers, and local government agencies to meet client transportation needs. Training and technical assistance are also provided to staff from small-city and rural transit systems.

- ***Inter-city Passenger Development*** (1.0 FTE) provides information and technical assistance and manages grant resources for inter-city bus, rail, and air passenger services that are needed to connect Oregon communities. Emphasis is placed on improving connections between transportation modes and improving travel information systems.
- ***Transportation Demand Management*** (1.0 FTE) provides financial and technical support to rideshare programs throughout the state. The Section develops policy and promotes alternatives to driving alone such as carpools, "park and ride" lots, flexible schedules, parking management, and telecommuting. Targeted information is also provided to commuters, business, and pleasure travelers.
- ***Public Transportation Planning*** (1.0 FTE) provides statewide transit policy and planning technical assistance and coordinates urban transit planning, local system planning, and multi-modal corridor planning.
- ***Division Administration*** (6.84 FTE) Defines state transit policies, and provides leadership and support for the four program areas.

Revenue Sources and Relationships

The Division receives the majority of its funding from federal sources. There are four Federal Transit Administration Programs from which the state receives formula grants: Section 5303 – Metropolitan Planning at approximately $1 million per biennium; Section 5310 – the Senior and Disabled Capital Program at approximately $14.6 million per biennium; Section 5311 – Rural/Small Cities Transit Program Grants for approximately $11.5 million per biennium; and Section 5313b – Statewide Transit Planning at approximately $243,008 per biennium. In addition, the Division receives $10 million in flexible Federal Surface Transportation Program (STP) funds to improve transportation for the elderly and disabled. These STP funds may be used for capital purchases such as vehicles.

In addition, $9.2 million in cigarette tax revenue will be passed directly to local governments to support senior and disabled transportation programs. The Department proposes using $1.78 million from the Transportation Operating Account to fund a portion of the match requirement for federal grants for Transportation Demand Management, Special Transportation, and the Senior and Disabled Transportation programs. The Department's budget includes $7 million in General Fund in combination with Other Funds from the Transportation Operating Account to continue Senior and Disabled Transportation programs at the current activity level.

Budget Environment

Major challenges for the Division include continued innovation and improvements for public transit services for the elderly, disabled citizens, and rural communities where additional funding by the Legislature created a grant program to communities for strengthened alternative transportation. There is no ongoing dedicated source of state funding to support urban transit systems. Aging transit fleets throughout the state will need to be replaced in the near future, or the state risks losing the capital infrastructure to operate the current services. Developing state policy and strategies to provide stable state, federal, and local financial support for planned urban transit system improvements will continue to be an issue.

Governor's Budget

The Governor's recommended budget of $45.6 million total funds is $2.8 million less than the 2001-03 legislatively approved expenditure level. The budget is reduced $3.3 million to phase out a one-time expenditure for transit grants approved by the Emergency Board during the interim. The Governor recommends approval of adding one Fiscal Analyst 2 (1.0 FTE) at salary range 27 for budgeting and financial management in the program unit. The position would be supported by corresponding reductions in special payments for discretionary grants. The recommended budget also includes a package to implement Public Transit's share of a rent pilot program for the Mill Creek Office Building at $57,117. The pilot is supported by decreases in other services and supplies expenditure items. The recommended budget shifts $750,000 General Fund to Other Funds for Senior and Disabled Transportation Services utilizing Transportation Operating Fund money to reduce General Fund support for those services. HB 5100 from the 2002 fifth special session provided for $262,171 General Fund to be shifted to Other Funds utilizing Transportation Operating Fund money and provided an additional reduction of $291,720 General Fund from the program budget since the January 2003 tax measure was not approved by voters. The Governor's recommended budget adjusts the amount reduced in the 2002 fifth special session action by reducing $904,638 General Fund and increasing Other Funds by the same amount for the 2003-05 biennium. The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges at $8,732 Other Funds and $18,637 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $139,946 Other Funds and $79,307 Federal Funds.

ODOT – Rail Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	10,572,434	10,294,606	9,377,517	5,155,050
Other Funds	9,773,190	9,736,978	34,192,051	29,728,406
Federal Funds	7,325,010	22,862,239	22,862,239	23,042,130
Total	**27,670,634**	**42,893,823**	**66,431,807**	**57,925,586**
FTE	19.55	27.63	26.88	27.50

Program Description

The Rail Division ensures compliance with state regulations related to passenger and freight rail service programs. The Division operates the following program activity areas:

- ***Division Administration*** (4.0 FTE) provides leadership and support, defines state rail policies, and insures rail interests are adequately addressed.
- ***Railroad Safety*** (12.0 FTE) provides safety inspection services of tracks, locomotives, and rail cars, and insures compliance with regulations related to hazardous materials and railroad operating practices. Staff also inspects railroad sidings and yards to insure safety of railroad workers in and around railway walk areas, loading docks, and bridges. This section is also responsible for overseeing the safe operation of Tri-Met's light rail operation as mandated by the Federal Transit Administration.
- ***Crossing Safety*** (7.0 FTE) authorizes all changes at public highway railroad crossings, inspects all public crossings, enforces laws related to crossing blockages, and manages crossing safety improvement projects.
- ***Rail Planning, Projects and Operations*** (5.0 FTE) manages and markets inter-city passenger rail operations and related thruway Motor Coach Service; coordinates Oregon's partnership in the Pacific Northwest High Speed Rail Corridor; and manages railroad improvement projects associated with both passenger and freight rail operations. This activity area also develops and implements freight and passenger rail plans and represents the state on railroad merger and abandonment and rail service issues.

Revenue Sources and Relationships

The programs operate with dedicated federal ($23 million) and state Other Funds ($14.3 million) revenue. State revenues include rail assessments (25%), Highway Fund (13%), Transportation Operating Fund (58%) and fines, rents, and other sales income (4%). For 2003-05, revenues include $15.5 million in Lottery bond proceeds for the South Metro Commuter Rail project approved by the 2001 Legislature. The Department's budget includes $5.2 million in General Fund and $4.9 million Other Funds from the Transportation Operating Fund to continue passenger rail service in the Willamette Corridor.

Budget Environment

Stable funding for both the passenger rail and short-line rail systems makes the future of rail service in Oregon uncertain. In addition to the 2001 Legislature's commitment of General Fund resources to supplement passenger rail service, the 2001 Legislature approved the sale of $2 million Lottery bonds to establish a Short Line Credit Premium Account for financial assistance to short-line railroads. Growth in the rail industry and increasing responsibilities are stretching Division staff resources to provide adequate services for protecting the public from rail-related incidents, particularly in the crossing safety areas. Local and regional commuter and interurban passenger rail service interest is increasing, with no funds to provide technical assistance from the Division. The 2001 Legislature approved three new positions, one position was eliminated by Special Session actions and the other two positions were included in the Governor's hiring freeze in an effort to free up the General Fund for other priority programs.

Governor's Budget

The Governor's recommended budget of $58 million total funds is $8.5 million less than 2001-03 legislatively approved expenditure level. The difference is primarily due to the addition of $15.5 million in Lottery bond proceeds for the South Metro Commuter Rail project and a reduction of $26.3 million to phase out a one-time expenditure limitation increase of $20 million for the South Metro Commuter Rail project in the 2001-03 biennium; $2 million and one position (1.0 FTE) related to the Short Line Rail credit program; and $4.3 million for grade crossing contracts and Amtrak Station improvements approved by the Emergency Board during the interim. HB 5100 from the 2002 fifth special session provided for $336,500 General Fund to be reduced from the program budget since the January 2003 tax measure was not approved by voters. The recommended budget increases the General Fund reduction to $4.9 million and shifts the expenditure limitation to Other Funds for the operation of one of two trains in the Willamette Corridor. The program is supported by money from the Transportation Operating Fund. The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges at $53,728 Other Funds and $179,891 Federal Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $467,288 total funds.

The recommended budget also:
- Adds $133,588 Other Fund expenditure limitation and one Fiscal Analyst 2 at salary range 27 for budgeting and financial management in the program unit, utilizing a mix of existing revenues to support the position;
- Adds $1.1 million Other Funds to operate an excursion train for the Lewis and Clark Celebration, utilizing money from the Transportation Operating Fund; and
- Implements the Rail Division's share of a rent pilot program for the Mill Creek Office Building at $58,779, supported by decreases in other services and supplies expenditure items.

ODOT – Transportation Safety Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	190,183	164,034	0
Other Funds	6,385,206	9,047,888	9,142,393	10,147,314
Federal Funds	12,056,575	13,253,274	13,415,611	13,594,104
Total	**18,441,781**	**22,491,345**	**22,722,038**	**23,741,418**
FTE	18.71	24.04	24.04	25.00

Program Description

The Transportation Safety Division advocates transportation safety through statewide education, enforcement, and engineering. Major efforts focus on occupant protection, intoxicated driving, speeding, youthful drivers, pedestrians, bicyclists, motorcyclists, and employers. Safety programs are operated through over 550 safety grants and contracts awarded annually to local agencies, non-profit groups, the private sector, and service providers. The grants use state and federal funds; provide statewide public education and information programs; and reimburse public schools that provide Division-approved driver education programs.

Revenue Sources and Relationships

Sixty percent of the Safety program funds are Federal Funds; the other 40% are state highway funds.

Budget Environment

A number of factors influence the workload and performance of the Transportation Safety Division. These include traffic safety education and driver training, youthful driver restrictions, posted speeds, passenger safety, and driving under the influence of intoxicants.

Governor's Budget

The Governor's recommended budget of $23.7 million total funds is $1.0 million more than the 2001-03 legislatively approved expenditure level. The Governor recommends an increase in service and supplies for rent matched with a reduction in professional services. The recommended budget also includes establishing one Program Technician 1 position at salary range 23 and reclassifying a Program Representative 1 upward to Program Representative 2 at salary range 27 to address increased workload and service levels. The cost of $135,106 for the positions is supported with federal safety funds at $64,812 and state driver education funds at $70,294.

HB 5100 from the 2002 fifth special session provided for an $18,877 General Fund program reduction since the January 2003 tax measure was not approved by voters. The recommended budget eliminates all General Fund support for the "Think First" and "Trauma Nurses Talk Tough" programs that educate youth and other at-risk drivers about traumatic injuries, proper use of helmets, safety belts, and car seats; and shifts $182,288 to Other Funds to continue the program. The program is supported by money from the Transportation Operating Fund. The remaining changes in the budget reflect applying standard inflation rates for services and supplies and state government service charges at $271,336 Other Funds and $414,242 Federal Funds; adds $39,118 Other Funds for fleet replacement; $50,000 Other Funds for safety related publications; and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $83,367 Other Funds; and $40,405 Federal Funds.

ODOT – Board of Maritime Pilots

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	199,948	249,757	255,650	272,714
Nonlimited	28,637	12,223	94,268	12,223
Total	**228,585**	**261,980**	**349,918**	**284,937**
FTE	1.00	1.00	1.00	1.00

Program Description

The Board of Maritime Pilots is located within the Department of Transportation budget but is independent of the agency and the Oregon Transportation Commission. The Board is charged with the regulation, including examining, licensing, and investigating complaints, of navigation pilots on Oregon's four pilot-required areas. There are currently 69 licensed pilots under the regulatory authority of the Board.

Revenue Sources and Relationships

The Board is a self-supporting entity funded by license fees. Revenues for 2003-05 are estimated to be $288,300 based upon the payment of the $1,500 annual license fee by each of the 70 licensed pilots and from miscellaneous other revenues.

Budget Environment

Workload on licensing activities is expected to remain level throughout 2003-05.

Governor's Budget

The Governor's recommended budget of $0.2 million is $22,957 higher than the 2001-03 legislatively approved expenditure level. The budget applies standard inflationary increases for services and supplies and state government service charges at $7,768 Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $9,296 Other Funds.

ODOT – Central Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	111,360,364	114,196,343	111,956,331	116,546,370
Federal Funds	179,744	116,016	116,016	57,173
Total	**111,540,108**	**114,312,359**	**112,072,347**	**116,603,543**
FTE	536.04	550.42	500.17	496.59

Program Description

Central Services provides the core administrative functions that support each of the programs. This program includes:

- ***Director's Office*** (3.0 FTE) includes the Department Director and support staff who oversee all operations and programs.
- ***ODOT Headquarters*** (36.50 FTE) accomplishes work through two major program areas. Government Relations is primarily responsible for working with the Oregon Legislature,; members of the Oregon Congressional delegation, and local government officials; and for analyzing federal and state laws and rules affecting transportation. The Public Affairs and Employee Communications unit provides information on

transportation programs and activities to the public and keeps ODOT's workforce informed about developments affecting their jobs.

- ***Central Services Administration*** (2.0 FTE) includes the Executive Deputy Director and a support person for management of Financial Services, Human Resources, Information Systems, Internal Audit Services, and Support Services.
- ***Financial Services*** (93.5 FTE) provides the Department with accounting and financial services including accounting, collections, budget, performance measures, and financial analysis.
- ***Human Resources*** (53.25 FTE) provides technical advice on personnel, safety and training issues, and manages the Department's human resource systems and processes. Human Resource staff work closely with operating divisions to identify options to meet staffing needs and more efficient ways of doing business.
- ***Civil Rights*** (4.0 FTE) is charged with administering 12 federal and state regulatory Civil Rights programs and handling compliance issues for the Department.
- ***Information Systems*** (259.34 FTE) includes planning, developing and supporting business application systems; technology infrastructure; and supporting telephone, electronic mail, and radio communication systems.
- ***Internal Audit Services*** (7.0 FTE) is responsible for assuring that effective management controls are in place and functioning properly.
- ***Support Services*** (40.0 FTE) provides a variety of services to all ODOT programs including purchasing and contract management, fleet, supply and reprographic operations, facility improvements, and general maintenance of ODOT facilities.

Revenue Sources and Relationships

Central Services is supported by a combination of direct and indirect charges. Direct charges are applied where the service can be accurately measured such as in computer charges and Highway Fuel Tax accounting. The bulk of the revenues, however, come from indirect charges that are assessed to each division primarily based upon its number of full-time equivalent positions.

Budget Environment

Workload in Central Services is driven by the workload factors affecting the Department as a whole. This includes factors such as the demographic changes in Oregon's population and economy, implementation of federal appropriation legislation, rapidly changing information technology, and efficient delivery of programs. Current revenues are insufficient to maintain current service levels for programs funded with Highway Fund revenue. The effect of staff reductions on service levels will make it more difficult to communicate with local property owners on construction projects; delay customer service; and slow workflow for Financial Services, Internal Audit, Information Systems, and Business Services.

Governor's Budget

The Governor's recommended budget of $116 million total funds is $4.5 million more than the 2001-03 legislatively approved expenditure level. The 2001-03 expenditure level is maintained by reducing the budget $6.6 million and eliminating 12 positions (12.5 FTE). The recommended budget reflects $62,487 Other Fund reduction as a result of the Governor's decision to cancel a 3% cost of living increase scheduled for February 2003 for management employees at salary range 38 and above. The budget decreases $49,965 Federal Funds for a one-time federal grant supporting fuels tax evasion, and reflects an adjustment to continue phase 2 of the Value Pricing Pilot program at $326,055 Other Funds. A position from DMV is shifted to this program for coordinating administrative rules at $152,570 Other Funds and 1.0 FTE. The Governor recommends approval of the following policy packages:

- Increasing the Other Funds expenditure limitation by $162,887 and adding two Governmental Auditor positions (1.50 FTE) to perform additional fuels tax compliance audits of unlicensed users and sellers of use fuels;
- Adding one Information Systems Specialist 8 (0.92 FTE) at salary range 33 to replace a contract data base administrator, supported by shifting $157,954 from the professional services expenditure category to personal services;
- Increasing the Other Funds expenditure limitation by $85,891 and adding one Information Systems Specialist 6 (0.92 FTE) at salary range 29 to maintain Intelligent Transportation Systems devices in Region 5, supported by a decrease in services and supplies and an intrafund transfer from Highway Operations;

- Reclassifying three Principal Executive Manager C (salary range 28) positions to Principal Executive Manager D (salary range 31) and reclassifying an Accountant 2 (salary range 23) to an Accountant 3 (salary range 27) at a cost of $30,786, supported by a corresponding decrease in services and supplies;
- Increasing the Other Funds expenditure limitation by $134,289 and adding a Grants/Contracts Coordinator position (1.0 FTE) to address increases in the volume and contracts complexity, supported by the Central Services Assessment;
- Implementing Central Services share of a rent pilot program for the Mill Creek Office Building at $102,665, supported by decreases in other services and supplies expenditure items; and
- Adjusting service and supplies line items to accommodate increases in rent totaling $300,439.

The budget applies standard inflationary increases for services and supplies and state government service charges at $1.7 million Other Funds and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases at $8.6 million Other Funds.

ODOT – Nonlimited

Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	20,031,122	25,491,163	25,491,163	54,432,264
FTE	0.00	0.00	0.00	0.00

Support Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	31,816,286	37,082,977	37,082,977	38,101,663
FTE	161.00	164.00	164.00	158.00

Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	1,622,668	2,250,631	2,250,631	2,377,338
FTE	55.92	15.75	14.00	16.00

Program Description

Nonlimited programs record revenues and expenses for transactions that are generally internal to the agency and serve operating programs that are subject to expenditure limitation. They are nonlimited because the level of activity is generally unpredictable. Nonlimited sections of the budget are Debt Service, Support Services, and Operations. Services within the budget include testing and inspecting roadway materials; purchasing equipment and fleet vehicles; repairing equipment in the field and in shops located in Salem, Bend, and La Grande; selling and distributing fuel; operating storerooms; designing and manufacturing signs; and traffic signals.

Revenue Sources and Relationships

- ***Debt Service:*** Debt service in this program relates to highway construction bonds and loan disbursements from the Oregon Transportation Infrastructure Fund (OTIF). Debt service is paid from the State Highway Fund. Total debt service payments for outstanding highway construction bonds already issued by ODOT are expected to be $44.2 million during the 2003-05 biennium. The OTIF makes loans to local governments, transit providers and other eligible borrowers. As loans are repaid, principal and interest are returned to the OTIF and are available for new loans. Loan disbursements for the 2003-05 biennium are estimated to be $10 million.
- ***Support Services and Operations:*** Revenues are received from other divisions within the Department for facilities management, fleet operations, fleet repair, acquisition and distribution, testing and inspecting roadway materials, sign and traffic signal design and manufacturing, and quality assurance testing. Some services are sold to local agencies. Examples of services provided are facilities maintenance and construction, operation of truck and equipment repair facilities, inventory maintenance, and purchasing. These expenditures are limited in the division or agency receiving the service.

Governor's Budget

The Governor's recommended budget for Nonlimited Debt Service is $54.4 million, $28.9 million more than the 2001-03 legislatively approved expenditure level. Debt service is adjusted to reflect the sale of highway user tax bonds for bridge repair, pavement preservation, modernization projects, safety work, and debt management expenses. The Nonlimited Support Services Program is $38.1 million, $1 million more than the 2001-03 legislatively approved expenditure level. The recommended budget adds $4.1 million applying the standard inflation rate for services and supplies and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases. The 2001-03 expenditure level is maintained by reducing the budget $3.8 million Other Funds and eliminating two positions to accommodate revenue shortfalls and decreased expenditures with the Department's program divisions. The Nonlimited Operations Program is $2.3 million or $126,707 more than the 2001-03 legislatively approved expenditure level. The recommended budget adds $482,982 applying the standard inflation rate for services and supplies and cost adjustments for unemployment assessments, overtime, temporaries, shift differentials, and merit increases.

ODOT – Lottery Debt Service

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Lottery Funds	19,993,390	20,200,045	10,201,991	26,527,418
Other Funds	0	0	8,177,928	0
Total	**19,993,390**	**20,200,045**	**18,379,919**	**26,527,418**
FTE	0.00	0.00	0.00	0.00

Program Description

The Lottery Debt Service program includes the state's share of funding for the Westside Light Rail Project in the Portland metropolitan area and the South Metro Commuter Rail project in Washington County.

Revenue Sources and Relationships

Other Funds are derived from the sale of bonds, which are retired using allocations of Lottery Funds.

Governor's Budget

The Governor's recommended budget is equal to the biennial debt service payments required to repay the bonds used for construction of the Westside Light Rail and South Metro Commuter Rail projects.

ODOT – Capital Improvements/Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	2,958,390	3,529,971	3,529,971	6,029,970
FTE	0.00	0.00	0.00	0.00

Program Description

The Capital Improvements and Capital Construction program provides for new construction, remodeling or improvements to facilities under the oversight of ODOT. A limited number of Highway construction projects are included in the Capital Improvement and Capital Construction program units.

Revenue Sources and Relationships

Construction activities are funded primarily through federal revenue sources and transfers of state highway funds. Other funding sources include COPs, interest earnings, donations, and grants.

Governor's Budget

The Governor's recommended budget of $6.0 million is $2.5 million more than the 2001-03 legislatively approved expenditure level. The budget provides $2.5 million Other Funds for 28 identified facility improvement projects and $3.5 million Other Funds to continue design and construction work on a new service garage for the Lake of the Woods maintenance station at an estimated cost of $1 million and construction of a new maintenance facility at the Sylvan maintenance station at an estimated cost of $2.5 million.

CONSUMER AND BUSINESS SERVICES

Board of Accountancy – Agency Totals

	1999-01 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,375,182	1,583,087	1,624,093	1,657,951
FTE	7.00	7.00	7.00	7.00

The Board of Accountancy is a seven-member citizen board that licenses and regulates public accountants. The Board administers the examination and licenses individual Certified Public Accountants (CPAs) and Public Accountants (PAs), and their firms. The Board is responsible for investigating complaints, renewing licenses and monitoring the continuing education of its licensees. A staff of seven administers the Board's programs. The Board currently regulates over 900 public accounting firms and 8,000 public accountants, most of them CPAs. The Board also licenses 300 CPAs to perform audits of state and local government agencies.

Revenue Sources and Relationships

The Board's Other Funds come primarily from business registration fees, biennial licensing fees, and examination fees. In 1999, the Board was granted authority to set fees by administrative rule. The current fees are: business registration - $100 and individual biennial licensing - $150. Additionally, a fee of $150 is charged for taking the full CPA examination and $50 is charged for taking individual section examinations. The Board is authorized to assess civil penalties to a maximum of $5,000 per offense. Additionally, a small amount of revenue is gained through the selling of mailing lists. Revenues, coupled with the anticipated ending June 30, 2003 balance, are projected to be more than sufficient to cover operating costs and leave a sufficient ending balance to carry over to the 2005-07 biennium.

Budget Environment

The Board is required by statute to offer the Uniform CPA exam twice a year. Recent legislation setting higher educational requirements resulted in an unprecedented number of CPA candidates taking examinations before the new requirements took effect in January 2000. Examination applications and membership have stabilized since then and Board operating costs are more predictable. The Board expects a slight decline of new candidates in future years due to the higher educational requirements. Implementation of a computer based CPA examination in 2004 is expected to impact exam revenues and costs, but the extent of the impact is not known.

Governor's Budget

The Governor's budget is 2.1% above the 2001-03 legislatively approved budget. The budget provides for nominal increases in costs due to inflation and salary adjustments. Revenues are sufficient to cover planned expenditures while still providing an estimated ending balance of $455,145, which is equal to a little more than six months of operating expenses.

Board of Chiropractic Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	819,623	864,111	892,354	967,493
FTE	4.50	4.50	4.50	4.50

Program Description

The Board of Chiropractic Examiners regulates chiropractic physicians, chiropractic assistants, and ancillary personnel (physiotherapists, hydrotherapists and electrotherapists) through examination, licensing, and disciplinary programs. The Board consists of seven members (five chiropractors and two public members) appointed by the Governor.

Revenue Sources and Relationships

The budget for the Board is supported by Other Funds revenue charged to licensees for professional licenses, examinations, and disciplinary actions. HB 2168 (2001) raised the statutory maximums for fees the Board charges. Fee increases were subsequently adopted into administrative rules by the Board and now require the 2003 Legislative Assembly to ratify the fee increases. The fee increase is necessary to maintain current activity levels; without an increase the Board would reduce current activities by $154,455

With the ratification of the fee increase, the Board estimates revenues of $929,710 for 2003-05. The Board's ending balance is anticipated to be $128,096 for 2001-03, decreasing to $90,313 for 2003-05. This represents an operating reserve of just over two months. Generally, it is recommended that an Other Funds agency maintain at least a 90-day operating reserve. The budget as presented would allow for few unanticipated expenses.

Budget Environment

The Board licenses over 1,400 chiropractors and 500 ancillary personnel annually. The number of active licensees has grown over 10% during the last two years. Total number of complaints continues to be higher than pre-1999 levels. There are currently 52 open complaints in various stages. Sexual boundary cases continue to occupy the majority of the Investigator's time due to their complexity. During the last year the Board concluded 12 boundary cases and currently has 8 open boundary related cases.

Governor's Budget

The Governor's budget of $967,493 is an 8.4% increase over the 2001-03 legislatively approved budget. The Governor's budget includes ratification of the fee increase to maintain the current level of service and an adequate ending balance. The budget also provides for reclassification of one position as recommended in a position review conducted by DAS Human Resources Services Division and includes funding for a mentoring program.

Board of Clinical Social Workers – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	418,268	483,912	499,055	511,068
FTE	2.50	2.54	2.54	2.50

Program Description

The Board of Clinical Social Workers regulates clinical social workers and social work associates. The Board is charged with developing and enforcing ethical standards for licensed individuals; investigating complaints; and disciplining licensed individuals who violate ethical standards, Board rules, or state licensing laws. There are seven board members: four licensed clinical social workers and three public citizens.

Revenue Sources and Relationships

Other Funds revenues from fees for professional licenses, examinations, and disciplinary actions support the budget for this Board. Fees were temporarily decreased in 1999-01 to address a high ending cash balance. The fees remained at the decreased level in 2001-03. A fee increase in 2003-05 is now necessary; without an increase the Board would reduce service capacity by approximately $179,190. The proposed fee increases are as follows:

FEE NAME	CURRENT FEE	PROPOSED FEE
New Application	$75	$100
CSWA Initial Certificate	$35	$50
LCSW Initial License	$50	$65
CSWA Renewal	$40	$55
LCSW Renewal	$55	$75

Budget Environment

The number of applicants and licensees has steadily increased since the Board's inception in 1989. Currently there are approximately 2,800 licensees. With an increasing Oregon population, the number of clinical social workers continues to grow. Although total licensees are increasing, rural Oregon has an ongoing shortage of licensed clinical social workers. The few licensees located in these outlying areas face limited access to continuing education offerings, making it difficult to complete licensing requirements. The Board is making improvements through home study, video, audio, and Internet resources.

Governor's Budget

The recommended budget of $511,068 is a 2.4% increase over the 2001-03 legislatively approved budget The budget anticipates approval of the fee increase and restores reductions made due to lack of revenue under the current fee structure. The budget anticipates an ending balance of $72,383, which represents a 3.3 month reserve.

Construction Contractors Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	10,666,283	11,226,263	11,623,662	12,070,329
Total	**10,753,575**	**11,226,263**	**11,623,662**	**12,070,329**
FTE	43179.75	63.75	63.75	60.75

Program Description

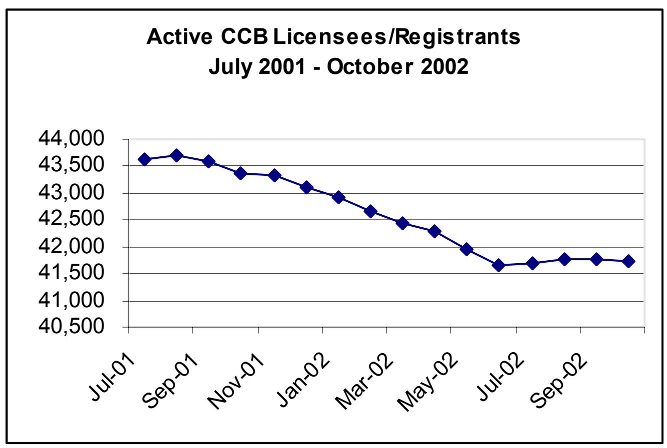
The Construction Contractors Board (CCB) provides services to homeowners, contractors, subcontractors, construction suppliers, bonding and insurance companies, and state and local building officials. The Board regulates the profession of construction contracting and provides consumer protection and dispute resolution services. The Board licenses construction contractors and subcontractors, provides consumer information and education, and resolves disputes. The Board investigates complaints, imposes fines for violations of Oregon laws, including failure to carry workers compensation coverage, and ensures that contractors meet statutory educational requirements.

Revenue Sources and Relationships

The Board will receive approximately 98.5% of its resources from contractor licensing and renewal fees in 2003-05. The remainder is from civil penalties and miscellaneous fees. In prior biennia, other revenue included reimbursements from plumbing and electrical inspection contracts with the Department of Consumer and Business Services, Building Codes Division (BCD), however the Governor's budget eliminates this source of funding in 2003-05. In 2001-03, this source was budgeted at $90,000. Revenues received from contracted services for the Landscape Contractors Board (LCB) equivalent to approximately 2.2 FTE also were eliminated as of July 1, 2002 when the LCB became a semi-independent state agency. The Board expects to transfer $400,000 in civil penalties to the General Fund.

Budget Environment

The essential functions of the Construction Contractors Board continue to be licensing, enforcement, claims resolution, and consumer education. However, workload of the Board, and the way in which it is handled, have shifted somewhat since 2000. Factors include the increased use of computer-based technology and the Internet, and implementation of a business competency test in July 2000. Between 2000 and 2003, the number of licensees decreased 7%, claims received decreased 10%, and telephone inquiries to the Board decreased 24%. During the same time period, enforcement actions by the Board decreased 6%. New programs to license lead-based paint workers and contractors, and to certify home inspectors, were implemented in 1995 and 1997, respectively. While these program levels have varied up and down in their lifetimes, overall they are a small portion of the Board's licensee base.



Actual 2001-03 revenues from licensing and renewal fees are expected to be about 25% lower than projected for the biennium. At current license fee levels, the Board projects 2003-05 revenues to be approximately 35% lower than 2001-03. The revenue shortfall is attributed to the economic downturn, implementation of a business competency test for new licensees and renewals where the license had lapsed for more than 12 months, lack of availability and high cost of liability insurance, and consolidation of construction firms. Among other administrative means, the Board has used ending balance revenues to maintain service levels, and now projects a 2001-2003 ending balance that is approximately 30% less than originally anticipated. Economic forecasts indicate that the year 2002 will end with a 6.8% decline in construction, and that the sector will be flat in 2003. Growth in 2004 is expected to be positive at 3.8%.

Because the agency's predominant revenue source is Other Funds, the Board is not directly affected by the state's revenue shortfall. Legislative action in the 2002 third special session increased the Board's limitation for 2001-03 employee compensation by $397,399.

Governor's Budget

The 2003-05 budget of $12,070,329 reflects a 4% increase over 2001-03, principally from standard inflation factors, price list adjustments, and roll-up of employee compensation. However, in order to maintain program service levels affected by the revenue shortfall discussed above, and restore an ending balance, the budget relies on a package that would change the license fee structure to a flat $320 per biennium for all categories of licenses. The proposal is an increase to licensees, on average, of $120 per biennium.

Approximately $5.2 million would be generated from the increase; $4.2 million would be used to fund a restoration of 28.75 FTE (29 positions). Position restoration does not include the Deputy Administrator. A package ($28,371) would fund the reclassification of positions in the enforcement section, which were approved by the Department of Administrative Services Human Resource Services Division in August of 2002: five positions from Program Representative 1 to Compliance Specialist 2, and one Investigator 2 position to Program Technician 1.

Rent for the Board's office at the Oregon Department of Veterans' Affairs building is expected to increase by 7%, to $1.61 per square foot. The 2001-03 budget for rent was 25% less than actual costs. The Governor's budget for 2003-05 would provide full funding for this expenditure. The capital outlay budget also provides $72,000 for the replacement of older computer work stations.

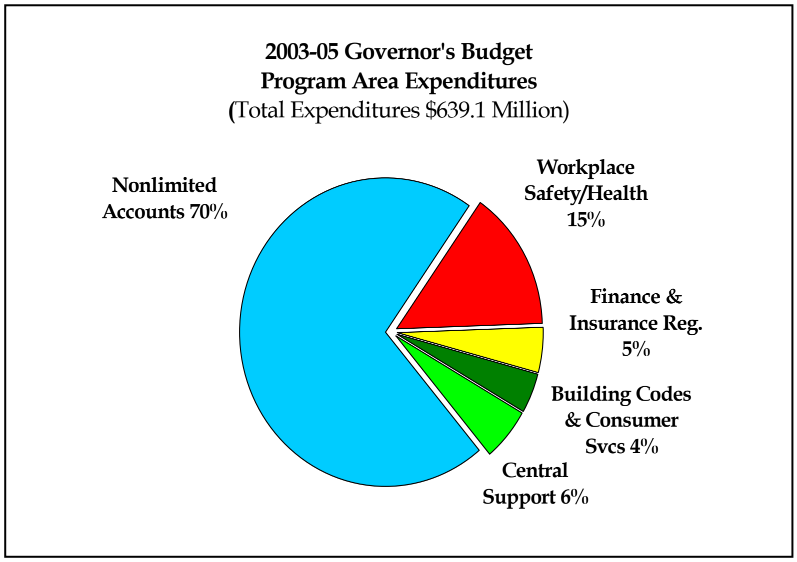
Department of Consumer and Business Services (DCBS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	159,427,817	166,696,503	172,737,807	182,922,758
Nonlimited	262,652,088	305,738,487	333,050,730	456,191,147
Total	**422,079,905**	**472,434,990**	**505,788,537**	**639,113,905**
FTE	1131.09	1102.51	1102.51	1077.17

Program Description

The Department of Consumer and Business Services is organized into four broad program areas that include central administration and three separate consumer-related regulatory functions:

- Central Support, including administrative support, information management and policy direction.
- Regulation and Enforcement of Workplace Safety and Health, including the Workers' Compensation Board, the Workers' Compensation Division, and Oregon Occupational Safety and Health Administration (OR-OSHA).
- Financial and Insurance Regulation and Services, including the Insurance Division, the Division of Finance and Corporate Securities, and the Oregon Medical Insurance Pool.
- Regulation of Building Codes and other consumer services, including the Building Codes Division and the Office of Minority, Women, and Emerging Small Business. The 2001 Legislature established the Appraiser Certification and Licensure Board as a semi-independent state agency effective July 1, 2001.



Nonlimited Accounts include the Workers' Benefit Fund, nonlimited reserves and payments for workers' compensation, and the Oregon Medical Insurance Pool third-party administrator and claim payments.

Revenue Sources and Relationships

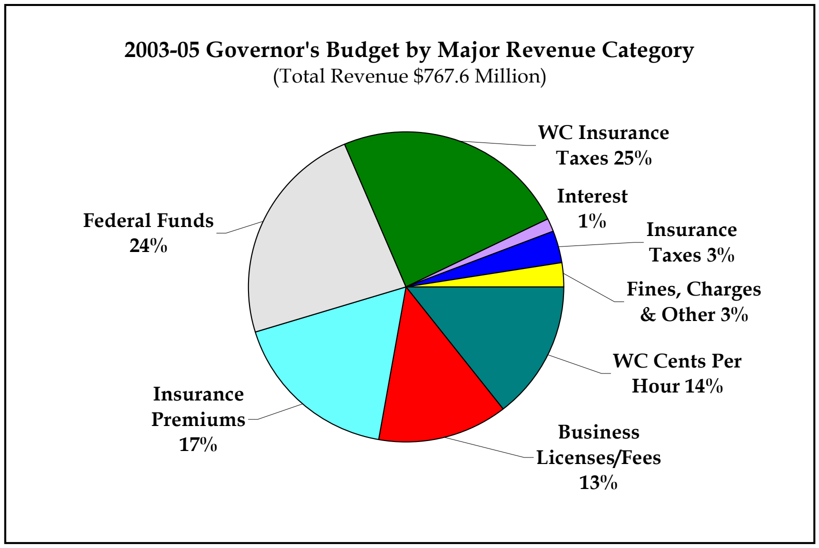
Over 500 dedicated fees, assessments, and charges support the operation of the Department of Consumer and Business Services. In addition, the Department is responsible for the management of a number of dedicated accounts within three separate operating funds: the Consumer and Business Services Fund; the Workers' Benefit Fund; and the Oregon Medical Insurance Pool.

- The Consumer and Business Services Fund is the operating fund for the Department. Revenue sources include the Workers' Compensation Premium Assessment, which supports the workers' compensation-related programs of the Department, business licenses, and assessments and fees that support Building Codes, insurance and finance and consumer services programs.
- The Workers' Benefit Fund is financed through the Workers' Compensation Cents per Hour assessments paid one-half by employers and one-half by workers. The current rate is 3.6 cents per hour, unchanged from 2001. For insurers and self-insured employers the assessment is 8.0% of earned premiums and 8.2% for self-insured employer groups. The Fund supports all of the injured workers programs, including the Handicapped Worker, Reemployment Assistance and Rehabilitation programs, and also includes reserves to ensure compensation for injured workers, such as the Non-Complying Employer reserve.
- The Oregon Medical Insurance Pool is funded with premiums collected from insured individuals and insurer assessments. The pool provides access to health care coverage for Oregonians excluded from the health insurance marketplace because of preexisting conditions.

Specific revenue sources include:

- Workers' Compensation Cents per Hour supports the Workers' Benefit Fund.

- Workers' Compensation Tax (Insurance Premium Assessments) supports workers' compensation programs. The total premium paid by employers continues to decline. Oregon has had 12 consecutive years of decline in the premiums paid by employers, equaling a 57.5% cut in these costs since 1990 and resulting in cumulative savings of $6.6 billion to Oregon employers. Due to the reduced revenue base and down of the ending balance, the tax rate was increased from 4.5% to 7.3% in 1998, and increased to 8.0 % in 2002 to cover actual operating costs. This rate is unchanged in 2003. The Department has reduced operating costs to hold the increase to this level.



- Insurance Premium Assessments support Insurance Division programs.
- Business Licenses and Fees, which support regulatory programs such as Building Codes and the Insurance and Finance Division. The 2003-05 budget for Building Codes reflects reduced revenue.
- Insurance Taxes that are transferred to the General Fund.
- Federal Funds, which are expended as Other Funds, support Occupational Safety and Health programs and the Senior Health Insurance Benefits Assistance (SHIBA) program.
- Interest earnings, fines, assessments and other revenues support various Department programs and are transferred to other agencies, such as the Oregon State Police to support the State Fire Marshal.

Budget Environment

Workload is driven by factors such as the demographic changes in Oregon's population, economic changes, changes in business practices including increased use of rapidly changing information technology, and health care needs and reform. This has also included, in recent years, absorbing administrative responsibility for a number of agencies, including Building Codes and the Office of Energy (until the Office was re-created as a separate agency by the 1999 Legislature). The 2001 Legislature added responsibility for enforcement of mortuary and cemetery regulation and established the Appraiser Certification and Licensure Board as a semi-independent state agency.

The 2003-05 budget for Building Codes programs reflects a $4.8 million reduction in revenue, from reduced activities, and elimination of 31.08 FTE. The Governor's budget assumes a fee increase and restores $1.6 million and 9.58 FTE of that reduction.

DCBS – Central Support

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	30,328,736	30,819,266	31,848,032	35,105,890
Nonlimited	790,400	1,550,000	1,550,000	819,522
Total	**31,119,136**	**32,369,266**	**33,398,032**	**35,925,412**
FTE	190.16	186.88	186.88	191.17

Program Description

Central Support provides direction, leadership, and support services to the diverse divisions, offices, and boards within the Department.

- The Director's Office accounts for 6% of Division expenditures and provides leadership, policy direction, general supervision of all programs, and liaison with other levels of government and the general public.
- Information Management Division accounts for 56 % of Division expenditures and establishes DCBS information technology strategy and standards. The unit collects, stores, processes, analyzes, and reports agency information.

- Business Administration Division accounts for 21% of Division expenditures. The unit provides centralized purchasing and accounting services, collection services, payroll, purchasing, printing, ordering, mail inventory control, warehouse and contract management services.
- Communication Services is 6% of Division expenditures, and provides outreach and information on rules, policies and data, including interactive forms on the Internet, to the public and non-English speaking Oregonians.
- Personnel Services is 6% of Division expenditures, and provides human resources support to the agency.
- Activities in the two Ombudsman Programs account for 5% of Division expenditures. The Injured Worker Ombudsman receives, investigates, and resolves workers' compensation complaints. The Small Business Ombudsman assists small businesses in obtaining workers' compensation coverage, intervenes in premium determination problems, and provides educational programs to small businesses.

Revenue Sources and Relationships

The Division is primarily funded with $34.9 million in Other Funds from revenue transfers within the Department's dedicated funds. Federal Funds of $230,000 from the US Bureau of Labor Statistics and matching funds from Workers' Compensation Premium Assessments fund an annual survey of work-related and fatal injuries. Ombudsman programs are funded with $1.5 million in Workers' Compensation Insurance Tax receipts. The Department expends Federal Funds as Other Funds.

Budget Environment

Workload in the Division is driven, in part, by the workload factors affecting the Department as a whole, including demographic changes in Oregon's population, continued economic growth, changes in business practices, rapidly changing information technology, and health care needs and reform. This also has included, in recent years, absorbing administrative responsibility for a number of agencies, including the Building Codes Division and the Office of Energy, until the Office was re-created as a separate agency by the 1999 Legislature.

The Division monitors agency workload and statistics and is working on outcome-measurement reporting.

Governor's Budget

The Governor's budget is an increase of 10.2 % ($2,527,380) and 4.29 FTE above the 2001-03 legislatively approved budget. Adjustments include $3.5 million and 4.29 FTE in net base budget adjustments, including salary adjustments and staffing for 2001-03 workload. The budget has $99,078 in net adjustments for inflation and personnel costs.

DCBS – Workers' Compensation Board

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	15,263,322	16,187,683	16,741,242	17,878,637
FTE	96.71	97.50	97.50	95.50

Program Description

The Workers' Compensation Board is responsible for adjudicating contested Workers' Compensation cases and Oregon Occupational Health and Safety Administration (OR-OSHA) citations, notices and orders, and for reviewing administrative orders on appeal. The Board consists of five full time permanent members. Offices are located in Portland, Salem, Eugene and Medford. The Board also conducts hearings in 8 other locations around the state.

Revenue Sources and Relationships

The primary revenue source for the Board is $17.9 million in Workers' Compensation Insurance Taxes. These taxes, assessed at 8.0% of earned premiums, are collected from SAIF, private, and self-insurers to be used for Department expenses, the Center for Occupational Disease Research, the Rehabilitation Reserve and the Non-Complying Employer Reserve. The Division also receives $19,000 in arbitration fees from insurers.

Budget Environment

Workload continues to show a decline from prior biennia. The number of requested hearings and Board reviews in calendar year 1992 were 17,877 hearings and 2,230 Board reviews; in 1999 there were 11,828 hearings and 1,096 Board reviews; and, in 2001 there were 10,139 hearings and 966 Board reviews. However, these numbers do not tell the entire story, since the scope and complexity of the cases filed with the Board have increased as litigants request hearings on issues related to the requirements of legislatively adopted workers compensation reforms. The agency has responded to the reduced number of filings by reducing staffing by 22.5 FTE since 1995-97: 7.5 in 1997-99, 12.0 in 1999-2001, 1.0 in 2001-03 and 2.0 in 2003-05, with a corresponding reduction in the growth of program expenditures.

Governor's Budget

The Governor's budget is an increase of 6.8 % ($1,137,395) and a reduction of 2 FTE from the 2001-03 legislatively approved budget. Adjustments include $1.5 million and a reduction of 2 FTE in net base budget adjustments to reflect 2001-03 workload requirements and salary adjustments, and $208,477 in net adjustments for inflation and personnel costs.

DCBS – Workers' Compensation Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	29,211,900	29,890,813	31,249,601	33,588,147
Nonlimited	2,992,876	3,250,221	3,250,221	3,334,446
Total	**32,204,776**	**33,141,034**	**34,499,822**	**36,922,593**
FTE	257.68	239.46	239.46	238.00

Program Description

The Workers' Compensation Division administers and enforces the provisions of the workers' compensation insurance coverage law and provides some education and consultative services.

The Division has five program areas. The Division budget is operationally consolidated, but the estimated costs distributed among the programs are as follows: administration (5%), benefits and policy (22%), dispute resolution (26%), compliance (26%), and operations (21%).

Revenue Sources and Relationships

The Division is primarily supported with $41.4 million in revenues from Workers' Compensation Insurance Taxes. The Division also receives $4.4 million in interest income as well as $1.3 million in other revenue that includes civil penalties on guaranty contracts.

Budget Environment

The 1990 reforms to the Workers' Compensation system stabilized the workload of the Division during the 1991-93 and 1993-95 biennia. However, appellate court decisions affected case processing and workload, and these decisions also led to the 1995 Workers' Compensation Reforms. The 1995 Legislature expanded the Division's responsibilities to include development and maintenance of comprehensive medical fee schedules; promotion of reemployment incentives; medical treatment contested case hearings; and disputes related to palliative care, medical fees, and vocational disputes. The Legislature also increased penalties against noncomplying employers.

The Division's budget and position authority was increased to deal with requirements of reform. Workload fluctuated in the 1999-01 biennium, with increases in the number of employers and covered workers, but decreases in claims and the number of resolved disputes. An audit of the functions of the Division conducted in 1998 found that caseload and workload standards, and other performance standards, were appropriate, and that the program is dealing with its workload appropriately. The 2001 Legislature reduced the budget by $1,014,430 and 5 FTE to reflect the revenue shortfall from the Workers' Compensation Premium Assessment. This included reductions to the Investigative Unit and to the Reemployment Assistance Unit, with a corresponding reduction of $1 million in the Nonlimited budget for the worksite modification program.

The Division continues to pursue improvements in technology and work processes to deal with the workload. In 1999-01 the Evaluation Unit and the Claims Examiner Certification process were eliminated. Hearing officers were transferred to the jurisdiction of the Employment Department as part of the Hearing Officer Panel to establish a statewide hearings unit.

Since 1996, the number of employers and workers in the state has grown by 9.6% and 8.9% respectively. The number of accepted disabling claims has declined by 13.1%. Managed care organizations have expanded their coverage of employers by 46.8% and workers by 70.1%. Formal disputes over benefits have declined 26.9% and the number of Preferred Worker contracts has declined 46.6%.

Governor's Budget

The Governor's budget is an increase of 7.02 % ($2,422,771) and a decrease of 1.0 FTE from the 2001-03 legislatively approved budget. Adjustments include $3.6 million Other Funds, $84,225 in Nonlimited Other Funds and a reduction of 1.46 FTE in base budget salary and workload adjustments in the 2001-03 biennium, and $136,067 Other Funds in net adjustments for inflation and personnel costs.

DCBS – Oregon Occupational Safety and Health Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	36,424,097	36,851,189	38,164,707	40,729,215
Total	**36,424,097**	**36,851,189**	**38,164,707**	**40,729,215**
FTE	254.32	235.08	235.08	234.83

Program Description

The Oregon Occupational Safety and Health Administration (OR-OSHA) protects worker health and safety by administering the Oregon Occupational Safe Employment Act and enforcing the Federal Occupational Safety and Health Rules, under an agreement with Federal Occupational and Safety Health Act (OSHA). The main responsibilities are:

- Enforcement of job safety and health laws to assure safe and healthful working conditions for Oregon workers.
- Provision of technical training for employer and employee groups.
- Consultative safety and health services to private and public employers and employees.
- Promulgation of occupational safety and health regulations.

The Division has four program areas: Consultative Services and Education; Enforcement; Program Support; and Administrative Services. Consultative Services is 37 % of Division expenses and provides employers with information on OR-OSHA requirements and conducts site visits to assist employers in identifying and correcting possible violations. Enforcement is 43 % of Division expenses, and is responsible for inspecting businesses and identifying violations as well as imposing fines and other penalties for violations. The remaining 20 % of Division expenses is attributable to Administration and Support Services, which provides services and support to operations.

Revenue Sources and Relationships

Projected 2003-05 revenue for the Division includes $34.7 million in Workers' Compensation Insurance Taxes, $10.1 million in Federal Funds (expended as Other Funds), and $2.8 million in OR-OSHA fines and forfeitures, most of which are transferred to the DCBS Fund to use for Department-wide workers compensation-related costs. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations by that agency.

Budget Environment

The Division focuses on education, consultative and prevention services, and worksite inspections. As a result of these activities, Oregon continues to experience a decrease in occupational illness and injury. In 2001, the Division conducted 5,397 health and safety inspections, 2,829 safety and health consultations, and trained 26,478 Oregon workers and employers. The Division will maintain its consultative and loss prevention services at approximately 2,199 per year, including worker training.

The number of illnesses or injuries per 100 full time workers decreased from 8.7 % in 1994 to 6.8% in 1998 to 6.3% in 2000 (the last year for which data was available). This reduction is a goal of the expanded activities by the Division to provide safety and health training and workplace inspections.

The 2001 Legislature approved a budget that was a reduction of $2,717,231 and 19.0 FTE, to reflect the revenue shortfall from the Workers' Compensation Premium Assessment. This included elimination of the Worksite Redesign Program, with a corresponding reduction of $3 million in the nonlimited budget, and reductions in the enforcement and consultation programs, including a 1% reduction in out of state travel.

Governor's Budget

The Governor's budget is an increase of 6.72 % ($2,564,508) and a decrease of .25 FTE from the 2001-03 legislatively approved budget. Adjustments include $3.7 million in net base budget adjustments for salary and workload in the 2001-03 biennium, and $196,614 in net adjustments for inflation and personnel costs.

DCBS – Nonlimited Accounts

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	258,622,979	300,738,266	328,050,509	451,837,179

Program Description

This program area reports nonlimited expenditures out of the Workers' Benefit Fund, the Oregon Medical Insurance Pool (OMIP) and two reserves maintained by the Department. Account expenditures include:

- $210,485,395 from the Workers' Benefit Fund for claims costs, workers' compensation premium subsidies, and other costs;
- $240,811,784 for third-party administrator payments and claim payments for high-risk insureds from the Oregon Medical Insurance Pool; and
- $540,000 from the Self-Insured Employer Adjustment Reserve and the Self-Insured Employer Group Adjustment Reserve.

Revenue Sources and Relationships

Nonlimited Workers Compensation revenues include:

- Workers' Compensation Insurance Taxes that are assessed on employers and collected by SAIF and other private insurers and self-insurers. The current rate is 8.0% of earned premiums for insurers and 8.2% from self-insured employer groups. The revenues are used for rehabilitation and noncomplying employer payments.
- Workers' Compensation Assessments and Contributions (cents-per-hour): the current rate is 3.6 cents per hour, reduced from 4 cents per hour in 2000, with a 1.8 cent deduction from employee wages and an equal deduction from the employer, which is dedicated to reserves in the Workers' Benefit Fund. One-sixteenth (1/16) of one cent is dedicated to the Center for Occupational Disease Research at the Oregon Health and Science University. Funds are also transferred to the Bureau of Labor and Industries to support workers' compensation-related investigations in that agency. The remainder is used for workers' compensation benefits.
- Recovered claims cost from noncomplying employers, fines, interest income, and other revenues.
- Oregon Medical Insurance Board assessments collected from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and individual insurance premiums collected from insured parties. The funds are used for the payment of claims for parties covered under the subject insurance plans.

Budget Environment

The 1995 Legislature directed the Department to reduce the balance of reserve funds to no more than six months of expenses and transfers. This reduction was to occur gradually over a period of years, protecting against wide fluctuations in the assessments to employers, insurance companies, and workers. The Legislature subsequently directed the Department to maintain a Workers' Benefit Fund reserve balance of twelve months.

The budget assumes OMIP's insurance pool loss ratio will be approximately 173.7 %. This is a change to previously lower loss ratios, and more closely reflects the current national experience of 200 %. The budget also contains a prudent reserve for extraordinary costs, such as multiple organ transplants, which could affect total expenditures. The OMIP caseload has increased from 6,500 in 1999-01 to 10,250 in 2001-03, primarily as a result to the implementation of the Family Health Insurance Assistance Program (FHIAP). The increase in nonlimited expenditures reflects that caseload growth. Enrollment is projected to increase to over 14,000 by the end of the 2003-05 biennium, which would be an additional 37 %.

Governor's Budget

The Governor's budget is a 37.7%% increase ($123,786,670) above the 2001-03 legislatively approved budget. This reflects the actual and planned increase in OMIP caseload.

DCBS – Insurance

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	12,955,261	14,931,855	15,424,736	16,602,432
FTE	93.00	95.21	95.21	93.00

Program Description

The Insurance Division protects the insurance-buying public by evaluating the financial soundness of insurance companies, the availability and cost of insurance, and the equitable treatment of insureds and claimants. The Division's four sections provide independent customer advocacy and education, assist consumers in resolving complaints against agents and companies, enforce the Insurance Code, and collect and audit taxes of insurance companies. The Company Regulation section monitors the financial solvency of Oregon insurers. Consumer Protection enforces the Insurance Code. The Rates and Forms section reviews insurance policy forms and premium rates for compliance with Oregon law. The Administrative Services and Operations section manages insurance agent licensing and also provides Division-wide support.

Revenue Sources and Relationships

Division revenue sources include Workers' Compensation Insurance Taxes, business license fees, insurance premium assessments, interest earnings, and investment returns. Revenue estimates for 2003-05 assume legislative approval of a fee increase from $1,300 to $1,500 for Certificate of Authority annual renewal. The Division receives a federal grant in the amount of $327,740 from the Health Care Financing Administration, which funds a portion of the Oregon Senior Health Insurance Benefits Assistance Program (SHIBA). For 2001-03, after paying operating expenses, it is expected that $95. 8 million in insurance premium taxes, fines, and interest earnings will be transferred to the General Fund for general governmental purposes. In addition, $8.7 million from assessments on fire insurance premiums will be transferred to the Oregon State Police Fire Marshal program.

Budget Environment

Increases in the complexity of insurance regulations, the demand for disaster insurance, and an aging Oregon population are significant workload factors for the Insurance Division. The Division is committed to using information technology to help manage this workload. The number of insurance agents licensed in Oregon has grown at an average annual rate of 9.1 % since 1992. The growth increased to 17.1 % in 2001. In addition, there were 1,644 licensed insurance companies in Oregon in 2001 compared to 1,639 companies in 2000.

The 2001 Legislatively adopted budget included an increase of $789,068 and 2.0 FTE compared to 1999-01 estimated expenditures. This funded increased education and compliance services.

Governor's Budget

The Governor's budget is an increase of 7.6% ($1,177,696) and a reduction of 2.21 FTE from the 2001-03 legislatively approved budget. Adjustments include $1.5 million in net base budget adjustments for salary and workload in the 2001-03 biennium, and $179,650 in net adjustments for inflation and personnel costs.

DCBS – Finance and Corporate Securities

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	8,055,462	9,689,449	10,017,620	10,962,252
FTE	61.34	63.50	63.50	63.75

Program Description

The Division of Finance and Corporate Securities (DFCS) enforces laws and regulations related to the sale of corporate securities, commodities, and franchises. DFCS also ensures the safety of financial transactions and fair treatment of the public for individuals, businesses, and governments. The Division is organized into two sections. The Financial Institutions Section is 64 % of the budget and regulates state-chartered banks, credit unions, savings and loan associations, and related businesses. Corporate Securities is 36 % of Division expenditures and registers security offerings, licenses businesses and individuals who sell securities, and investigates and enforces securities and commodities laws.

Revenue Sources and Relationships

The Division receives $12.6 million in revenue from annual assessments on financial institution assets and from securities licensing, registration, and examination fees. The Division receives $508,283 from interest earnings. Approximately $3.8 million in revenue from fines and surplus securities licensing and examination is transferred biennially to the state General Fund.

Budget Environment

A number of factors influence the workload and performance of DFCS. Federal law changes, specifically the passage of the 1999 Gramm-Leach-Bliley Financial Modernization Act, remove barriers to merging financial service providers. Continued expansion of consumer finance businesses (such as payday loans and title loans) creates a greater demand for oversight. Licensed securities broker-dealers are growing in number, the finance and securities field is becoming more globalized, and the use of the Internet for transactions is increasing. All of these changes increase the difficulty of oversight functions and require the Division to continually review program policy. DFCS is addressing these issues through an increase in education and cross training, enhancements in technology, and implementation of state and local partnerships. This workload has not been affected by either the current economic slowdown or the September 2001 terrorist attacks.

In 2001, DFCS oversaw 5,079 registered securities, 112,847 licensed brokers/dealers and salespersons, and 1,064 investment advisor firms. The Securities section conducted 120 securities investigations, took 74 administrative actions, and made three criminal referrals. In 2001, DFCS also oversaw 33 state chartered banks, eight state chartered trust companies, and 28 credit unions with assets worth over $33 billion. There were also 86 consumer finance and short-term lenders, 1, 118 licensed mortgage bankers/brokers, 472 registered collection agencies, and 38 licensed pawnbrokers with $6.6 million in receivables from pawned items.

The 2001 legislature approved an increase of increase of $1.3 million and 2.99 FTE compared to 1999-01 estimated expenditures. This primarily reflects an increase in oversight and protection services in the Mortgage Lender program and the transfer of oversight and regulation of pre-need funeral trusts from the Secretary of State to DCBS.

Governor's Budget

The Governor's Budget is an increase of 9.4% ($944,632) and an increase of 0.25 FTE from the 2001-03 legislatively approved budget. Adjustments include $1.1 million in net base budget adjustments to reflect salary and workload adjustments in the 2001-03 biennium, and $157,210 in net adjustments for inflation and personnel costs.

DCBS – Oregon Medical Pool Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,286,982	1,079,867	1,120,595	1,231,223
FTE	5.00	7.00	7.00	7.00

Program Description

The Oregon Medical Insurance Pool (OMIP) is a component of the Oregon Health Plan and ensures access to major medical insurance coverage for Oregon residents who otherwise are unable to obtain medical insurance for health reasons. Portability coverage is also available for eligible individuals. OMIP promotes access to health coverage and administers a third-party administrator contract. A board of directors, consisting of seven citizen members, guides OMIP policy. The OMIP shares its administrator and some staff through an intergovernmental agreement with the Insurance Pool Governing Board.

Revenue Sources and Relationships

OMIP collects assessments from health insurers (generally twice a year, on an as-needed basis depending on expenditure estimates) and collects individual insurance premiums from insured parties. Other Funds revenues include interest earnings. Nonlimited revenues of approximately $240.8 million are reported in the Nonlimited Programs section. The funds are used for the payment of claims for parties covered under the subject insurance plans, third-party administrator payments, and claim payments for high-risk insureds within Oregon through the Oregon Medical Insurance Pool Board. By statute, the administration rates for pool coverage cannot be more than 125 % of rates established as applicable for individual risks in the commercial market.

Budget Environment

Rising health care costs and underwriting practices could affect the number of Oregonians in the high-risk medical pool, which OMIP estimates currently to be between 10,000 and 15,000. As noted earlier, the OMIP caseload has increased 6,500 in the 1999-2001 biennium to a projected caseload of 10,250 at the end of the 2001-03 biennium or a 57.7% increase. Enrollment is projected to increase to over 14,000 by the end of the 2003-05 biennium, which would be an additional 37% increase.

Other factors that affect workload include the cost of the coverage, which is set at 125% of the premium set by the largest insurers. The Division continues to monitor the insurance offered for cost and coverage.

The 2001 Legislature approved an increase of $23,374 and 2.0 FTE compared to 1999-01 estimated expenditures, to provide data analysis, warehouse, reporting, and access support, and to monitor and review contract compliance by the third-party administrator.

Governor's Budget

The Governor's Budget is an increase of 9.9% ($110,628) above the 2001-03 legislatively approved budget. Adjustments include $167,915 in net base budget adjustments for 2001-03 salary and workload increases, and a net reduction of $16,559 in adjustments for inflation and personnel costs.

DCBS – Building Codes

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	24,648,525	26,613,554	27,510,589	26,088,608
Nonlimited	184,708	200,000	200,000	200,000
Total	**24,833,233**	**26,813,554**	**27,710,589**	**26,288,608**
FTE	164.88	172.88	172.88	148.92

Program Description

The Division has statutory authority for the enforcement of laws and codes related to structures and dwellings; manufactured structures; RV parks and tourist facilities; plumbing; elevators; amusement rides; electrical safety; and boilers and pressure vessels. With assistance from six boards, 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 trade professional 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, and prefabricated structures and components and annually inspects operating elevators. The Division tests and certifies construction inspectors and tests and licenses plumbers and electricians.

In 1999, the Legislature established a tri-county Building Industry Service Board (Washington, Clackamas, and Multnomah Counties) and provided the Division with 3.5 FTE to administer this Board.

Revenue Sources and Relationships

The Division's revenues include:

- $29.5 million from fees for licenses, inspections, and permits, as well as surcharges on fees levied by state and local jurisdictions;
- $279,480 in Federal Funds (expended as Other Funds) to provide consumer assistance to individuals with complaints about manufactured homes and EPA funds for energy efficient manufactured homes certification;
- $468,456 from fines; and

- $258,428 in other revenue, including interest earnings.

The fees charged by Building Codes were established in the 1979 edition of the Uniform Building Code. These structural fees were increased by the 1999 Legislature at the request of the building industry to support ongoing program costs. For a variety of its other programs in 2001, the Division sought legislative confirmation of fee increases, the majority of which were approved. These fee increases had industry support. However, forecasted revenues for the 2003-05 biennium reflect declining revenue and workload, and insufficient revenue to maintain some required levels of service. The budget includes a reduction of $4.8 million and 31.08 FTE to reflect this revenue forecast. A fee bill and policy option package would restore $1.6 million of that revenue and 9.58 FTE.

Budget Environment

By law, the Division is required to provide building codes regulation in areas where the local jurisdictions do not want to provide such service. As the provider of last resort, the Division serves nine % of the population, collects two % of the fees, and is responsible for 55 % of the geographic area in Oregon. HB 2153 passed by the 2001 Legislature required local jurisdictions to participate in compliance activities. The Division expects most jurisdictions to continue use of the state for processing cases resulting in a projected 3% increase in the number of compliance cases.

The 2001 legislatively adopted budget had an increase of $2,647,508 and 13.1 FTE above 1999-01 estimated expenditures. This included transferring 12 limited duration positions to permanent status, with a total cost of $1,352,206, and the establishment of 3 positions, at a cost of $388,791, for inspection services on new prisons built by the Department of Corrections and on light rail installations, as required by statute.

Governor’s Budget

The Governor’s budget is a decrease of 5.13% ($1,421,981) and a decrease of 23.96 FTE from the 2001-03 legislatively approved budget. This includes policy option package 191, which would restore 9.58 FTE and services and supplies at a cost of $1,587,024. Funding for this package requires approval by the 2003 Legislature of fees that were administratively established or increased during the 2001-03 biennium.

DCBS – Office of Minority, Women and Emerging Small Business

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	543,517	632,827	660,685	736,354
FTE	5.00	5.00	5.00	5.00

Program Description

The Office of Minority, Women, and Emerging Small Business (OMWESB) certifies small businesses for targeted economic opportunity programs. The Disadvantaged Business Enterprise (DBE) program aids firms seeking to contract with recipients of federal transportation funds. A business participating in the Minority Business Enterprise (MBE) and/or Women Business Enterprise (WBE) programs is certified to contract with state, county, city, and local jurisdictions. The race and gender-neutral Emerging Small Business (ESB) program certifies small businesses for work on specially designated ESB projects. OMWESB maintains an on-line directory of firms certified in these programs. The Office also provides public education on the certification programs and serves as a referral point for information on small businesses.

Revenue Sources and Relationships

The Office is funded by Other Funds revenue received from the Department of Transportation (ODOT) for business certification for federally funded projects and from the Department of Administrative Services (DAS) for assessments to state agencies for certification and outreach services. In 2003-05 OMWESB expects to receive $528,083 from ODOT, which is 45 % of the Office’s funding. The remaining 55 % ($655,960) will come from the DAS assessments.

Budget Environment

OMWESB concentrates its efforts on the certification and re-certification process. Effective December 1, 2000, certifications are valid for three years, instead of one. Easing the paperwork burden on certified agencies will allow the Office more time to focus on education, directory maintenance, and referral services. In the 2000-01 fiscal year, OMWESB certified 343 new applications and recertified 758 applications.

Governor's Budget

The Governor's budget is an increase of 11.45%% ($75,669) from the 2001-03 legislatively approved budget. Adjustments include $101,340 in net base budget adjustments for salary and workload changes in the 2001-03 biennium, and a net increase of $2,187 in adjustments for inflation and personnel costs.

DCBS – Appraisers Certification and Licensure Board

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	710,015	0	0	0
Nonlimited	61,125	0	0	0
Total	**771,140**	**0**	**0**	**0**
FTE	3.00	0.00	0.00	0.00

Program Description

The Board licenses, certifies, supervises, and disciplines appraisers in Oregon, and establishes education and experience standards. The Board ensures that regulatory functions are kept separate from the influence of industries and organizations that have a financial interest in the Board's actions. The Board conducts audits and investigations, takes disciplinary action, and conducts contested case hearings.

The 2001 Legislature passed Senate Bill 304 establishing the Board as a semi-independent state agency effective July 1, 2001.

Board of Licensed Professional Counselors and Therapists – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	287,165	376,065	390,676	444,592
FTE	2.00	2.00	2.00	2.25

Program Description

The Board of Licensed Professional Counselors and Therapists oversees a voluntary licensing program for professional counselors and marriage and family therapists. The law provides a licensing process for professionals who want to use the title of "licensed professional counselor" or "licensed marriage and family therapist." In 1998, the Board began registering interns. The internship program permits counselors and therapists to register with the board while they are completing the work experience requirements for licensure. There are seven board members: three licensed professional counselors, two licensed marriage and family therapists, one faculty from a related training program, and one public member.

Revenue Sources and Relationships

The Board receives Other Funds revenues from fees charged to licensees for professional examinations, licenses, and disciplinary actions. SB 410 (2001) permitted the Board to increase fees through administrative rule during 2001-03. The new fee structure must be ratified by the 2003 Legislative Assembly. If the fees are not ratified, they expire on July 1, 2003 and significant revenue shortfalls would follow.

Budget Environment

The Board expects to renew 2,800 licenses in 2001-03 and initially license another 112 applicants. License volume has not fluctuated significantly for the last three biennia. Participation in the intern registration program should continue to grow.

A 2001-03 budget note directed the Board to look into the feasibility of biennial, rather than annual, license renewal. The Board concluded biennial renewal has several advantages, but making this change, when coupled with a need to increase fees in 2001-03, would be prohibitive for licensees in the upcoming biennium.

The Board receives approximately 30 complaints per year, some of which result in disciplinary actions. The Board is attempting to negotiate settlement agreements rather than go to hearing. This is due to the cost of contracting with the centralized Hearing Officer Panel, a requirement since 1999.

Governor's Budget

The Governor's budget is 13.8% above the 2001-03 legislatively approved budget. Contingent upon ratification of fee increases, the budget restores program reductions made due to a lack of revenue under the previous fee structure. The budget also provides for reclassification of two positions as recommended in a position review conducted by DAS Human Resources Services Division and adds one part-time clerical position (0.25 FTE) to address increased workload. The budget anticipates an ending balance of $98,143, which represents a five month reserve.

Health Licensing Office – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	3,351,018	3,952,294	4,224,801	4,676,749
FTE	27.12	27.29	27.29	28.00

Program Description

The Health Licensing Office was created as a consumer protection agency in 1999. The Office's mission is to maintain a strong and healthy quality of life for the citizens of Oregon by creating uniform public protection practices for the health professions and occupations under its authority. Its purpose is to license and regulate certain health professions, occupations, individuals, and business. The Office provides policy and operational directions, human and financial resources, oversight, and accountability for public protection. The agency is responsible for licensing, standards, complaints, enforcement, public information, education, and support to the boards, councils, and programs.

The agency is made up of nine boards, councils, and programs; collectively there are more than 50 board members including 7 physicians, 8 public members, and 35 licensed professionals. Combined there are 45 standing committees. The nine boards, councils, and programs include:

- Board of Athletic Trainers
- Board of Cosmetology
- Board of Denture Technology
- Board of Direct Entry Midwifery
- Respiratory Therapist Licensing Board
- Sanitarians Registration Board
- Advisory Council for Electrologists, Permanent Color Technicians and Tattoo Artists
- Advisory Council on Hearing Aids
- Body Piercing Licensing Programs

Revenue Sources and Relationships

The Health Licensing Office is supported by Other Funds revenue generated from issuance of certificates and licenses, examination fees, and civil penalty collections. Total revenues are estimated at $4.0 million for 2001-03 and the Governor's budget includes $4.8 million for 2003-05. The 2001 legislatively adopted budget includes fee increases to be made in administrative rule during the interim and these increases are now before the 2003 Legislative Assembly for ratification.

The Health Licensing Office has proposed legislation that will allow the agency to recover costs associated with disciplinary cases and places expenses for investigations on the responsible party instead of burdening all licensees with the costs. The Office estimates an additional $24,000 of revenue should the legislation be adopted.

The agency is also proposing to establish fees for each field of practice of cosmetology. Previously, a $50 fee covered three separate fields. The proposed legislation established a $25 fee for licenses in each individual field. The effect of the change is difficult to calculate because cosmetologists may choose to drop a field rather than pay the extra $25.

Budget Environment

The demand for services from the agency grows as the population grows regardless of economic conditions. The agency issues 24 types of professional licenses and authorizes and administers seven types of national tests and four clinical examinations. Other activities include maintaining over 69,000 licensing records, conducting 3,500 examinations each biennium, and completing over 22,000 inspections. The Office will also conduct an estimated 884 investigations in 2001-03 with over 2,000 disciplinary sanctions imposed. This activity has continued to increase from biennium to biennium.

Governor's Budget

The Governor's budget of $4.68 million is a 10.7% increase over the 2001-03 legislatively approved budget. The increase can be attributed to roll-up costs of personnel actions made in the 2001-03 biennium, inflation, position corrections and reclassifications, and information technology projects. The Governor's budget made some line item reductions to bring the budget in line with current biennium-to-date expenditures.

Health-Related Occupational Licensing Boards

The Health-Related Occupational Licensing Boards are responsible for establishing, maintaining and regulating professional practice standards. Board members are health professionals and public members appointed by the Governor. Professionals are charged fees for examinations, issuance of licenses, renewals and other activities.

Revenue Sources and Relationships

All of the Boards are supported by Other Funds from fee revenue. Fees are set at levels that allow for the operation of the individual Boards with an adequate cash reserve for operating expenses. Fee increases were requested by four of the Boards including the Board of Chiropractic Examiners, the Board of Licensed Professional Counselors and Therapists, the Board of Examiners of Nursing Home Administrators, and the Board of Pharmacy.

Budget Environment

Most of the Boards have been experiencing growth in the number of licensees for the past few years. Along with this growth has come increased workload related to issuing licenses, providing information to applicants and the public, investigating complaints and monitoring continuing education requirements.

Oregon statutes contain guidelines and timeframes in which the Boards are to process complaints. The statute requires all Boards to investigate and present each case for action within 120 days of receiving the complaint. In addition, the Boards may not disclose any pertinent information about the case to the general public. The Attorney General's office determined that both the complainant and the respondent are considered to be members of the general public. As a result, the Boards may not disclose information to another state agency, even if there are violations or criminal aspects to the case that are under the other agency's authority. A statute also requires that all complaints be investigated, whether or not the allegations are relevant to the Boards' authority. This determination makes case investigation very difficult and time consuming. Many of the Boards have hired or contracted with compliance investigators due to the number of complaints, time constraints and complexity of investigations.

Most of the Boards have identified links to benchmarks. Some Boards have developed specific performance measures with quantifiable outcomes and targets, while others are still in the development stages.

Because each of these Boards is a separate state agency, no summary figures are provided. What follows is a description and the legislatively adopted budget for each Board.

Board of Dentistry – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,387,934	1,616,949	1,654,903	1,770,506
FTE	7.00	7.00	7.00	7.00

Program Description

The Board of Dentistry licenses general dentists, dental specialists and dental hygienists, regulates the use of anesthesia in dentistry and certifies dental assistants and expanded function dental assistants. The Board consists of nine members (six dentists, two dental hygienists, and one public member) appointed by the Governor and confirmed by the Senate for four-year terms.

Revenue Sources and Relationships

The budget for the Board is supported by initial license application, renewal, examination, and permit fees plus revenues generated from fines imposed for late renewals, civil penalties assessed, and miscellaneous receipts from the sale of mailing lists and copies of public records. Fees are established so that revenues collected will not exceed the cost of administering the Board's programs.

Revenue is estimated at $2.3 million for 2003-05, which includes a beginning balance of $612,479. The cash balance at the end of the 2003-05 biennium is projected to be $522,980, about a 6.6-month operating reserve.

Budget Environment

As of August 1, 2002, there were 3,447 dentists and 3,176 dental hygienists regulated by the Board of Dentistry. The number of licensees continues to increase as the population grows and as more people have access to dental care. Overall, complaints have risen 43% over the past ten years. During the 2001-03 biennium, the Board estimated it would open about 598 new investigations. This is a 10% increase over the previous biennium. The Board is continuing to take steps to improve and expedite the process.

Governor's Budget

The Governor's recommended budget of almost $1.8 million is an increase of 7% over the 2001-03 legislatively approved budget. The budget includes an increase for facilities rent in excess of standard inflation in anticipation of increased market rates on a new lease (the Board's five year lease expires July 2004), an increase in the investigator and consultant services from 16 hours per week to 32 hours per week, and the replacement of the network server, mail server software and upgrades to existing workstations. The proposed packages total $73, 122.

Board of Examiners of Licensed Dieticians – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	53,979	56,748	60,888	63,511
FTE	0.30	0.30	0.30	0.30

Program Description

The Board of Examiners of Licensed Dietitians oversees the voluntary licensing of dietitians and assures ethical practice by licensed dietitians. The Board issues licenses to qualified applicants, renews licenses, and verifies continuing education. The Board also receives complaints and reviews them to determine whether the complaint falls within the Board's authority and, if so, obtains information to determine if a violation has occurred. If a violation has occurred, the Board takes appropriate disciplinary action.

Revenue Sources and Relationships

Estimated revenue from license fees, renewal fees, licensee lists/labels and late fees is sufficient to maintain Board operations. Revenue is estimated at $63,772 for 2001-03 and $60,597 for 2003-05. The projected cash balance at the end of the 2003-05 biennium represents about an 11-month reserve.

Budget Environment

The Board anticipates minimal changes in the number of licenses issued during 2003-05 compared to 2001-03. The Board shares office space, network administrator services, database support and clerical support with seven other boards.

Governor's Budget

The Governor's recommended budget is a 4% increase from 2001-03 legislatively approved budget. The budget essentially maintains current services.

Mortuary and Cemetery Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	863,332	1,002,270	1,033,486	1,136,897
FTE	6.00	6.00	6.00	6.00

Program Description

The Mortuary and Cemetery Board regulates individuals and establishments involved in the transportation, care, preparation, and processing of dead bodies. The Board provides oversight, regulation, testing, review, registration, certification and discipline of funeral service practitioners, embalmers, cemetery operators, pre-need salespersons, and crematoriums. The Board's oversight includes regular inspections of licensed facilities and investigation of complaints.

Revenue Sources and Relationships

The Board is funded solely by Other Funds revenue from application fees, license fees, examination fees, miscellaneous fees, a portion of death registration filing fees, and civil penalties.
As of August 2002, the Board's 2,228 licensees included 640 funeral service practitioners, 494 embalmers, 80 apprentices, 8 interns, 250 pre-need sales people, 195 funeral establishments, 19 immediate disposition companies, 488 cemeteries, and 54 crematories.

Revenues for the 2001-03 biennium are estimated to be $1,002,270 and $1,122,658 for the 2003-05 biennium. To meet the continuing needs of existing programs and maintain an adequate ending balance, the Board is requesting an increase in the death certificate filing fee from $7 to $14.
The increased fee would provide the Board with $12 of every death certificate filing fee, and $2 for the Department of Human Services Health Division for the administration of the Indigent Burial Fund Program. License fees have not been increased since 1993. The Budget is dependent on this concept being drafted for consideration by the legislature.

HB 2809, approved by the 2001 legislature, gave the Board authority to establish, administratively, a yearly renewal fee of $25 for pre-need salespersons during the 2001-03 biennium. The new fee structure was adopted by the Board through administrative rule and must be ratified by the 2003 Legislative Assembly. The renewal fee would generate $8,200 Other Funds revenue in 2003-05. The fee increases would leave the Board with an estimated $283,459, which is a 6-month operating reserve. The new fee structure is as follows:

FEE NAME	CURRENT FEE	PROPOSED FEE
Death Certificate Filing Fee	$7.00	$14.00
Pre-need Salespersons	$0.00	$25.00

Budget Environment

The industry has experienced a 39% increase in the number of funeral establishments and immediate disposition companies over the past 16 years. This increase is compounded with a 25% increase in the death rate. More than 56% of Oregonians prefer cremation, resulting in a 65% increase in the number of licensed crematoriums since 1984. The increase in facilities and licensed professionals has resulted in an increase in complaints the Board is required to investigate.

Oregon is experiencing escalation in corporate buyouts and along with consolidation came the aggressive marketing of pre-need funeral and cemetery plans. As large corporations intensified their efforts to capture the market for the future, many independently-owned establishments were compelled to follow suit or fade away. It is estimated that by 1998, consumers had paid in excess of $25 billion for pre-need arrangements, nationwide. That figure was up from an estimated $18 billion in 1995. The development of the pre-need marketing and other staffing requirements resulted in a dramatic increase in the number of initial individual licenses issued.

The Board is required to inspect each facility and its records not less than once biennially. The 1993 Legislative Assembly passed a law requiring the registration of individuals who market pre-need funeral or cemetery service or merchandise. Background checks must be performed on all licensed and professional staff when ownership changes. Due to the enormous increase in corporate buyouts of funeral service facilities and the registration of pre-need salespersons, the Board expects to conduct 1,400 background checks during the 2003-05 biennium, representing an increase of more than 61% since 1993.

Governor's Budget

The Governor's recommended budget is a 13% increase over the 2001-03 legislatively approved budget; it essentially maintains current activities for the agency and assumes fee increases as noted above.

Board of Naturopathic Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	273,905	310,634	320,366	341,309
FTE	1.75	1.75	1.75	1.75

Program Description

The Board of Naturopathic Examiners is responsible for the examination, licensing, and regulation of naturopathic physicians. The Board conducts state jurisprudence examinations for applicants. The Board issues licenses to practice naturopathic medicine and certificates of special competency in natural childbirth. The Board sets continuing education standards and approves naturopathic schools or colleges offering four-year full-time residential programs. Currently, there are four Board approved colleges with several others requesting approval including one from outside the United States. The Board also investigates complaints, administers discipline, and imposes civil penalties. The Board consists of five members (four naturopaths and one public member) appointed by the Governor.

Revenue Sources and Relationships

The Board receives Other Funds revenues from fees charged to applicants and licensees for examinations, licenses, and disciplinary actions. Fees were temporarily decreased in 1999-01 to address a high ending cash balance. The fees remained at the decreased level in 2001-03 and the ending balance is now more in line with acceptable levels. A fee increase in 2003-05 is again necessary to maintain current operations. The proposed increases are as follows:

FEE NAME	FEE PRIOR TO TEMPORARY REDUCTION	CURRENT FEE	PROPOSED FEE
Examination	$150	$150	$150
Reciprocity	$150	$150	$150
Initial License	$150	$75	$150
Biennial Renewal	$700	$350	$550
Retired Status License	$30	$15	$15
Inactive Annual License	$175	$90	$125
Initial Childbirth Certification	$50	$50	$60
Annual Childbirth Renewal	$50	$50	$60
Delinquent/Restoration Fee	$75	$75	$150

Budget Environment

The Board expects to renew 480 licenses in 2001-03, projecting a 12.5% increase to 540 in 2003-05. The number of new license applications is estimated at 185, reflective of expanding interest in naturopathic care. The Board plans on using its web site, brochures, and newsletters to educate the public about naturopathy and the Board's role in regulating the field. As the number of both physicians and clients grows, the Board anticipates a corresponding increase in the number of complaints and investigations. The Board currently shares office space, computer support, and clerical resources with other health related agencies.

Governor's Budget

The recommended budget of $341,309 is a 6.5% increase over the 2001-03 legislatively approved budget. The budget assumes approval of the fee increase mentioned above. The budget also assumes adoption of legislation increasing the board membership from five to seven and increasing temporary employee services for peak workload periods.

Board of Examiners of Nursing Home Administrators – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	177,893	178,487	184,380	196,837
FTE	1.00	1.00	1.00	1.00

Program Description

The Board of Examiners of Nursing Home Administrators develops and enforces standards of practice for nursing home administrators. The Board consists of nine members (three nursing home administrators, three public members, one registered nurse, one registered pharmacist, and one physician) who are appointed by the Governor.

Revenue Sources and Relationships

The Board is supported by Other Funds in the form of fees for examination, re-examination, original licenses, renewal licenses, endorsement fees, provisional licenses and other miscellaneous fees. A fee increase was included as part of the 2001-03 legislatively adopted budget. The new fee structure was adopted by the Board through Administrative Rule and became effective on February 1, 2002, and must be ratified by the 2003 Legislative Assembly.

Revenue was estimated at $205,905 for 2001-03 and $229,450 for 2003-05 (with fee increases). The ending cash balance is projected to be $118,169 at the end of the 2003-05 biennium. This represents an 11-month operating reserve. The proposed fee structure is as follows

FEE NAME	2001 FEE	2/2002 ADOPTED FEE
Initial License	$100-$200	$250.00
Renewal Fee-Inactive	$300.00	$300.00
Renewal Fee-Active	$300.00	$400.00
Exam Application	$200.00	$125.00
State Exam Retake	$100.00	$125.00
Provisional License	$200.00	$300.00
Endorsement Application	$200.00	$300.00

Budget Environment

The Board licenses about 400 nursing home administrators. Nationwide there has been a 25% decline in candidates sitting for the national Nursing Home Administrator's examination. Burnout, fears of litigation, lack of mentoring, and extensive regulation were some of the reasons offered. In Oregon, however, the number of administrators has remained stable for several years, ranging from 400 to 450. The number of new licenses issued in a biennium usually equals the number of administrators who choose not to renew their license.

The Board shares office space, equipment, and computer services with other health-related licensing boards, and shares in the cost of an information systems administrator through an interagency agreement with the Board of Nursing.

Governor's Budget

The Governor's recommended budget of $196,837 is 7% above the 2001-03 legislatively approved budget. No program enhancements were requested.

Occupational Therapy Licensing Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	191,640	223,039	241,453	260,434
FTE	1.25	1.25	1.25	1.25

Program Description

The Occupational Therapy Licensing Board is responsible for licensing and regulation of occupational therapists and occupational therapy assistants and monitoring continuing education requirements. The Board consists of five members (three occupational therapists and two public members) appointed by the Governor. The Board staff consists of an executive officer (1.0 FTE) and a part-time office specialist (0.25 FTE).

Revenue Sources and Relationships

The Board is funded by revenue from license fees and miscellaneous fees. Fees are set by administrative rule to a maximum specified by statute. The maximum fees in statute are proposed to be increased in separate legislation. Currently, fees are at their statutory limit. The proposed budget assumes an increase in fees as described below:

FEE NAME	CURRENT FEE	PROPOSED FEE
Initial License	$75	$85
Renewal License	$85	$100
Reciprocal License	$75	$120

The above fee increases will generate approximately $35,000 additional revenue for the Board.

Budget Environment

The number of licensed occupational therapists and assistants decreased in 2000-01 despite the increased need for services; however, the number of licensees has grown since 2001 and is projected to continue to rise as employment growth in the profession increases. The Board receives more requests for information from licensees and the public as more occupational therapists and assistants maintain licenses in multiple states. The Board shares office space, equipment, and staff with other health-related boards, and is participating in a joint business initiative to pool technology funds and creates a compatible network/hardware system. The Board estimates it will issue 2,400 licenses during the 2003-05 biennium, review 150 initial applications, and investigate ten complaints.

Governor's Budget

The Governor's budget funds the Board at 7.9% above the 2001-03 legislatively approved budget. The budget assumes approval of the fee increase mentioned above, increased funding for Attorney General and costs associated with investigations of complaints, and funding for one board member or the Executive Officer to attend a national conference.

Board of Pharmacy – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	2,156,968	2,358,405	2,735,701	3,006,091
FTE	13.50	13.50	15.00	15.50

Program Description

The Board of Pharmacy is responsible for the licensing and regulation of pharmacists, pharmacy technicians and pharmacies, drug manufacturers, wholesalers, drug outlets, and other distributors of legal drugs. It is also responsible for the quality and distribution of prescription drugs, over-the-counter drugs, and controlled substances. The Board consists of seven members (five pharmacists and two public members) appointed by the Governor.

Revenue Sources and Relationships

The Board is funded by revenue from licenses and fees. The Board issues licenses to over 4,000 pharmacists and pharmacist interns, approximately 4,500 pharmacy technicians and more than 4,800 drug outlets.

SB 405 increased the statutory maximums, established in ORS 689.135, of the Board's fees during the 2001 legislative session. A fee increase was proposed for pharmacists and pharmacies in the 2001-03 Governor's recommended budget to fund an upgrade of the agency's computer system and other expenses. The agency was directed by the Legislature to refine the proposal and seek the necessary Other Funds expenditure limitation increase from the Emergency Board during the 2001-03 interim. In November 2001, the Emergency Board approved an expenditure increase of $243,000 Other Funds for a computer and information management system upgrade, with the understanding that the Board of Pharmacy would increase fees through its administrative rule authority to provide the revenue for the additional costs. The new fee structure was adopted by the Board through Administrative Rule and must be ratified by the 2003 Legislative Assembly. The fee increases would leave the Board with an 11-month operating reserve. Fees have not been increased in more than ten years. The proposed fee increases as follows:

FEE NAME	CURRENT FEE	PROPOSED FEE
Pharmacists License Fee	$75.00	$120.00
Pharmacies License Fee	$100.00	$175.00

Budget Environment

The Board has a staggered renewal system and currently has over 14,500 licensees and anticipates this number will continue growing. There has been a large increase in the Board's compliance, investigation, licensing and administrative workloads. This is due primarily to pharmacists becoming more involved in direct patient care and drug therapy management, the use of pharmacy technicians, the increase in the number of drug outlets that must be inspected, the increased complexity of complaints and investigations, the growing popularity of the drug alert system (which alerts pharmacists of prescription scams), and an increase in requests for information from the public, pharmacists, attorneys, and others.

Governor's Budget

The Governor's recommended budget of $3 million is a 10% increase over the 2001-03 legislatively approved budget. The budget includes the proposed fee increases discussed above. Also included in the budget is an increase in Other Funds expenditure limitation for the reclassification of four positions ($23,796), a software agreement ($34,000), shared computer network maintenance and support services and upgrades ($62,473), and a decrease in Attorney General costs (16,860). The proposed packages total $103,409 Other Funds.

Board of Radiologic Technology – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	361,515	389,372	452,364	486,589
FTE	2.50	2.50	2.79	3.00

Program Description

The Board of Radiologic Technology licenses and regulates radiologic technologists, sets minimum requirements for licensees and limited permit holders, and verifies completion of continuing education requirements. The Board is composed of seven members (four diagnostic radiologic technologists, one radiation therapist, one M.D. radiologist and one public member) appointed by the Governor. The Board is supported by an Executive Officer (1.0 FTE) and additional support staff (1.5 FTE).

Revenue Sources and Relationships

The Board is funded by license fees, examination fees, and fines. Other sources of revenue include limited permit exams, temporary licensing, and miscellaneous fines and fees. Some fees were raised and a new fee created during the 2001-03 interim and will require legislative ratification during the 2003 session. A new expedited license fee of $50 was instituted during the interim. This is a voluntary fee for those who desire to receive their initial or renewal license in one to two working days as opposed to the normal processing time of two to three weeks. If the Legislature ratifies the fee increase, the Board would have $553,514 Other Funds revenue available in 2003-05. The Board's ending balance is expected to be equivalent to a 3.3 month operating expense reserve.

Budget Environment

The Board has nearly 6,000 licensees, 56% of whom are radiologic technologists (with degrees) and 36% who are limited permit licensees (attended trade school). New applications and license renewals, however, are anticipated to be considerably higher during 2003-05. Workload increases from 1999-01 through projected 2001-03 include a 25% increase in initial applications, a 33% increase in renewal applications, a 48% increase in examinations, and a 53% increase in the number of investigations. The Board shares office space, network administration and data base services, and clerical services with seven other licensing boards, however, it is attempting to relocate its offices to accommodate the need for additional office space as the workload continues to increase.

Governor's Budget

The Governor's recommended budget represented an increase of 7.6% above the 2001-03 legislatively approved budget. The budget assumes ratification of the fee increases made during the 2001-03 interim. At its April 2002 meeting, the Emergency Board increased a half-time clerical position to full-time on a limited duration basis. This budget makes that change permanent to address increased workload. The budget also increases funding for various information services projects.

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	140,216	150,073	158,119	163,120
FTE	0.85	0.85	0.85	0.85

Program Description

The Board's purpose is to protect the public by insuring that practitioners meet and maintain minimum standards for practice. The Board evaluates the qualifications of individuals seeking licensure, investigates complaints against licensees or persons operating without a license, provides public information and education regarding licensure, and is implementing professional development requirements for license renewal. The Board has seven members, appointed by the Governor: two licensed speech-language pathologists, two licensed audiologists, two public members, and one medical doctor with American Board of Otolaryngology certification.

Revenue Sources and Relationships

The Board is funded through application fees, license fees, and miscellaneous fees. Fees are $30 for initial application processing and $100 per biennium for licensing of speech-language pathologists and audiologists. Since the majority of revenue comes at renewal time every two years, cash balances must be maintained to support expenditures through the biennium. Still, after accounting for the program expenditures for the biennium, 2003-05 revenues are expected to generate an adequate emergency reserve. Consequently, no fee increases were requested for 2003-05. The Board anticipates spending a portion of the cash balance to maintain current service levels and fund optional packages.

Budget Environment

The Board licenses, investigates and disciplines approximately 1,400 speech-language pathologists and audiology practitioners. HB 3268 (2001) created a new category of licensure for the Board. Licensing assistant speech-language pathologists is not anticipated to generate significant revenue nor noticeably increase workload for the agency. The Board has increased its outreach and education with establishment of a website and distribution of a directory and newsletter. No significant increase in workload is expected. The Board shares office space, equipment, and clerical help with other licensing boards, and is participating in a joint business initiative with them to pool limited technology resources and provide consistent access to technical support.

Governor's Budget

The Governor's budget funds the Board at 3.2% above the 2001-03 legislatively approved budget. The budget funds current services and includes funding for one staff or board member to attend a national conference. Revenues were projected to adequately fund this increase and have an ending balance equal to over 8 months of operating expenses.

Veterinary Medical Examining Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	443,527	429,477	429,477	492,831
FTE	2.25	2.25	2.25	2.25

Program Description

The Veterinary Medical Examining Board is responsible for regulating veterinary medical practice, including the licensing of veterinarians, veterinary technicians, interns, and animal euthanasia technicians and shelters. The Board has seven members (five veterinarians and two public members) appointed by the Governor.

Revenue Sources and Relationships

The Board is solely supported by Other Fund revenues from license, application and examination fees, penalties and sale of lists to the public to support the Board. The Board is proposing a temporary reduction in Veterinary Permit Licenses and Renewal License fees. The reduction should reduce revenue in the 2003-05 biennium and leave the Board with an ending balance of 12.5 months of operational costs. Expenditures proposed for the 2003-05 biennium can be funded within the reduced fee structure. The proposed decreases are as follows:

FEE NAME	CURRENT FEE	DECREASED FEE
North American Veterinary Licensing Exam Fee	$375	$325
Veterinary License Application Fee	$ 75	Waive
Veterinary Intern Permit Fee	$100	Waive
Veterinary Technician Fee	$ 25	Waive
Veterinary Technician National Exam Fee	$105	Waive
Euthanasia Facility Certification Renewal Fee	$ 25	Waive
Euthanasia Technician Certification Fee	$ 10	Waive

Budget Environment

Beginning in November 2000, the national licensing examination is conducted on a computer with applicants scheduling the test through a central agency. This process has reduced the processing time and expense that the Board previously had to expend administering the exams. In addition to the change in administering the national licensure examination, other issues include the practice of alternative health methods for animals being practiced by unlicensed lay persons, ownership of veterinary practices by non-veterinarians, and the number of complaints received by the Board. Currently there are approximately 2,500 licensees regulated by the Board. The Board has continued to experience high Attorney General fees due mainly to the activities of a licensee whose license was revoked by the Board. The licensee appealed the Board's Final Order and the case may have further legal repercussions as the Board investigates options under the recent appeal decision.

Governor's Budget

The Governor's recommended budget of $492,831 is a 15% increase over the 2001-03 legislatively approved budget. The budget provides additional funding for Attorney General expenses in anticipation of an ongoing case rising to the appellate level and for the interpretation and adaptation of agency regulation due to a recent Oregon Supreme Court decision ($4,000). Additionally, the budget provides funding for a Veterinary Technician to the Board for per diem, Social Security taxes, and in-state travel (3,433). Finally, the budget includes a temporary reduction in Veterinary Permit Licenses and Renewal Licenses ($91,982).

Board of Investigators – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	327,381	378,169	394,217	410,821
FTE	2.29	2.50	2.50	2.50

Program Description

The Board of Investigators was created by the 1997 Legislature and expanded in 2001 from five to seven members who are appointed by the Governor. The 2001 Legislature established minimum qualifications for licensure and renewal, professional education requirements, and causes for sanction. The Board is still working on a code of professional conduct for licensed investigators.

Revenue Sources and Relationships

The Board is supported primarily by application, exam, license, and renewal fees paid by private investigators and provisional investigators. A small amount of revenue is generated from miscellaneous sources such as licensee lists and copies of documents.

The Board estimates it will have fewer applications for initial licenses but more renewals as they approach the saturation point of potential applicants during the 2003-2005 biennium. Even so, the number of licenses is expected to increase by about 20% from approximately 500 to 600.

Budget Environment

The Board of Investigators has identified five issues driving development of its budget, which are:

- building public awareness of the agency's existence, mission and purpose;
- use of titles other than Investigator by individuals to avoid licensure;
- higher than anticipated complaints;
- increased workload for staff and Board members; and
- rapid change in technology.

With the expansion of the Board from five to seven and hiring of a full-time Executive Director and half-time investigator, the Board is now positioned to address these issues**.** The Board's current fee structure will be adequate to support the budget in this biennium but will leave the Board with only enough reserves to cover two-months of expenditures. The Board proposes increasing the license fee for Provisional Investigators in 2003-2005 to build and maintain a more adequate reserve of about four months' expenditures.

As an Other Funds agency, the Board of Investigators was not impacted by the special sessions except to increase its expenditure limitation for the compensation package authorized during the third special session.

Governor's Budget

The recommended budget of $410,821 Other Funds is 4% higher than the 2001-03 legislatively approved budget. Most of that increase is due to changes in the compensation package authorized during the third special session. Since the Board is a relatively new agency, it continues to grow and establish its presence. The increase in the budget request primarily reflects the cost of having full-time employees plus increases in government service charges and rent. As a relatively new agency, the Board has little history on which it can base accurate workload projections.

Bureau of Labor and Industries (BOLI) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	12,458,293	12,411,445	11,620,433	11,672,962
Other Funds	4,175,091	4,036,826	4,677,997	5,093,723
Federal Funds	855,612	1,204,179	1,253,344	1,400,120
Nonlimited	1,644,348	2,215,000	2,415,000	2,292,525
Total	**19,133,344**	**19,867,450**	**19,966,774**	**20,459,330**
FTE	129.00	113.75	113.75	102.87

The Bureau of Labor and Industries (BOLI) has four divisions: Commissioner's Office/Program Support Services; Civil Rights; Wage and Hour; and Apprenticeship and Training. The Bureau ensures compliance with state laws relating to apprenticeship; wages and hours worked; terms and conditions of employment; and rights of workers and citizens to equal and nondiscriminatory treatment.

Revenue Sources and Relationships

BOLI is primarily supported by the General Fund. Nearly half of the Bureau's other revenues come from Other Funds. For 2003-05, $3.9 million Other Funds revenues will be derived from a fractional percentage (.03 percent) of the unemployment taxes paid by employers each year. The Wage Security Fund is used to pay final wages for employees whose employers cease operations and default on final paychecks. Assessments on public works construction contracts for the Prevailing Wage Rate program account for $1.9 million; Technical Assistance Fees will generate $1.1 million; contract services with the Department of Consumer and Business Services and several Oregon cities will produce over $816,000; and miscellaneous fees and receipts will provide over $631,000. BOLI will receive an estimated $1.3 million in Federal Funds from the Equal Employment Opportunity Commission. This supports approximately 63 percent of actual costs for civil rights where federal and state jurisdictions overlap.

Budget Environment

A new Labor Commissioner was elected in November 2002. The budget recommendations were developed under the prior Labor Commissioner and may be modified by the new Commissioner after his review.

The agency's 2001-03 budget was reduced by $791,012 net General Fund based on special session actions during the interim. The agency received an additional $302,451 General Fund and $158,917 Other and Federal Funds for partial funding of employee salary and benefit increases. This was $105,193 General Fund less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions and reduce programs and services.

As a result of the passage of HB 5100 during the fifth Special Session, the 2003-05 budget included a reduction of $2,087,140 General Fund and 17.26 FTE. This would have eliminated the state apprenticeship program effective October 1, 2004. However, the Governor's budget partially restores this reduction with $788,188 General Fund and 6.38 FTE, resulting in a net agency-wide HB 5100 General Fund reduction of $1,298,952 and 10.88 FTE. The effect on the apprenticeship program is discussed in that program unit. Other reductions include closing the Medford office in October 2003; prioritizing wage collection claims investigations, which will give low priority to single claimant low dollar claims; effectively eliminating civil rights claims investigation on the 25 percent of claims involving exclusive state law claims; and deferring apprenticeship program monitoring. BOLI will also increase its seminar fees and eliminate all free technical assistance services except the use of its web site to answer common questions, and will continue to respond to email and telephone inquiries

The Bureau of Labor and Industries' workload is primarily driven by the number of complaints it receives relating to wages and hours worked; terms and conditions of employment; and rights of workers and citizens to equal and nondiscriminatory treatment. General wage complaint activity has increased significantly, from a low of 2,500 in fiscal year 1998 to over 3,500 in fiscal year 2002. Wage Security Fund filings and payouts increased from 528 in 1998 to 969 in 2002. BOLI attributes the wage claim increases to the number of new business that have inexperienced owners and managers who are unfamiliar with employment law, and to employees who have lost jobs due to a downturn in the labor market and who have unresolved wage matters with former employers. Apprenticeship registration has declined from a high of over 8,000 in fiscal year 1997 to the current 5,744. Construction activity is beginning to slow which may impact future apprenticeship enrollments and prevailing wage activity.

BOLI – Commissioner's Office and Program Support Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,890,671	3,734,274	3,490,087	3,695,269
Other Funds	1,090,341	1,822,828	1,853,771	2,039,797
Federal Funds	176,614	205,319	212,502	176,445
Total	**5,157,626**	**5,762,421**	**5,556,360**	**5,911,511**
FTE	30.25	29.50	29.50	28.00

Program Description

The Commissioner's Office and Program Support Services Division provides overall policy direction and management for the Bureau. The Division's program units are:

- ***Commissioner's Office*** (5.0 FTE) – This unit combines administration, strategic planning, legal policy, public information, and intergovernmental relations into one activity area.
- ***Business Services*** (8.50 FTE) – This program provides centralized fiscal services including accounting, purchasing, payroll, budget development, contract administration, and telecommunications. Personnel services such as safety, wellness, labor/management relations, workers' compensation, training, and staff development are another component of this program area. The Information Services activity implements and maintains the department computer information systems and user support functions.
- ***Hearings Unit*** (5.92 FTE) – This unit convenes administrative law proceedings in contested cases for wage and hour, and civil rights matters.
- ***Technical Assistance for Employers*** (8.58 FTE) – This unit provides employers with information in the form of a web site, handbooks, a telephone information line, and customized workshops and seminars regarding employment law requirements.

Revenue Sources and Relationships

This program is primarily funded from General Fund resources. Other Funds revenues for the Commissioner's Office/Program Support Division include fees from seminars for employers on Civil Rights and Wage and Hour laws, on-site presentations, and the sale of handbooks totaling just over $1.1 million. Special Prevailing Wage Rate revenues of $207,126 provide targeted assistance for public contracting compliance. Additional Other Funds are received from miscellaneous fees. Federal Funds of $204,263 reflect costs for administrative law proceedings for contested cases relating to the Equal Employment Opportunity Commission (EEOC) contract.

Budget Environment

In the 1993-95 biennium, BOLI had 159 FTE. For the 2003-05 biennium, the Governor's budget staffing level is 102.87 FTE, a decline of 35.3 percent. The overall workload has remained approximately the same despite this significant decrease in staff. BOLI has handled this workload growth through improved use of technology, particularly through the use of its website. The referral of cases to the hearings unit increased from 139 in 1993-95 to 260 in the 1999-01 biennium. Telephone inquiries for Technical Assistance decreased somewhat with the addition of the agency's website. The division will answer 25,461 inquiries and there will be over 3,000 website inquiries. Seminar and on-site programs increased from 211 to 243 since 1995. Timeliness of response remains the primary customer focus for BOLI, and this reduction in staffing adversely affects timeliness.

Governor's Budget

The Governor's budget funds the division at the 2001-03 legislatively approved budget level, adjusted for special session reductions, and base budget inflation and personal services adjustments. The budget includes a reduction of 1.5 FTE from the legislatively approved budget.

BOLI – Civil Rights

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,715,448	3,027,673	2,415,750	2,315,710
Other Funds	662,420	290,908	835,263	951,282
Federal Funds	614,874	934,836	974,508	1,142,462
Total	**3,992,742**	**4,253,417**	**4,225,521**	**4,409,454**
FTE	35.50	31.00	31.00	28.12

Program Description

The Civil Rights Division enforces laws that that prohibit unlawful discrimination in employment, housing, public accommodation, and career schools. These protections are provided on the basis of: race/color, national origin, sex, religion, association, age, marital status, physical/mental 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 as well as ordinance complaints related to discrimination in violation of local ordinances in Corvallis, Eugene, and Portland, and Multnomah and Benton Counties.

The Division operates under a work-share agreement with the federal Equal Employment Opportunity Commission (EEOC) for cases that fall under both state and federal law, including civil rights laws; the Americans with Disabilities Act; and the Age Discrimination in Employment Act. These dual-filed cases represent about half of the Division's caseload.

The Labor Commissioner also has a 15-member advisory council, the Oregon Council on Civil and Human Rights, which provides citizen input in identifying and addressing current and emerging civil and human rights issues.

Revenue Sources and Relationships

The Civil Rights Division expects to receive Other Funds of over $429,400 from OR-OSHA, the cities of Corvallis, Eugene and Portland, and Multnomah and Benton Counties for services provided under contract, and miscellaneous revenues from providing public record copies. A major Other Funds source ($610,000) is from workers' compensation revenues in the Department of Consumer and Business Services (DCBS), for investigating allegations of discrimination against injured workers. The EEOC work-share reimbursement of $500 per case provides $1.04 million Federal Funds. This reimbursement covers about half the actual costs. Since the federal budget fluctuates, the number of cases authorized for reimbursement varies per year, regardless of the number of actual cases handled. Federal Funds reductions shift the costs of shared cases onto the General Fund.

Budget Environment

The Governor's budget reduces the Civil Right Division staffing by 3 positions (2.88 FTE). Two of the positions are investigators. The loss of these investigator positions will increase the workload for the remaining 14.5 FTE investigators. The average caseload of 55 cases per investigator would likely increase by 10 percent. As a result, it will continue to be difficult for the Civil Rights Division to meet its statutory requirements, and the Division may process only revenue-generating cases. State-based cases will be given last priority. Examples of these state-based cases include Oregon Family Leave Act, and several whistle-blowing statutes.

The Civil Rights Division responds to nearly 26,000 inquiries annually and investigates over 2,000 cases per year. Most of these cases relate to discrimination in employment. In 1996, the agency increased efficiency by implementing a new case management system. This system has provided complainants with quicker resolution through early screening and disposition of cases with no evidence, and has helped the agency to offset the declining federal share of investigative costs. Because of these improvements, processing time for each case was reduced from 11 months to 160 days. However, with the staffing reductions, the number of case processing days has increased by 20. Complaints of discrimination vary annually, from a high of 2,749 in 1995 to approximately 2,249 in 2002.

Funding for investigation of discrimination complaints against injured workers was shifted from the General Fund to the Workers' Benefit Fund in DCBS in 1995. It was renewed in the 1997-99 biennium and again in the 1999-2001 biennium, and continues in the 2003-05 biennium. Complaints from injured workers of discrimination or retaliation for using the workers' compensation system constitute 15 percent to 20 percent of the Civil Rights Division's annual caseload and require the equivalent of four investigators. A budget note in the 1999-2001 budget report directed the Bureau to develop future budget proposals that do not include or depend on revenues from the Workers' Benefit Fund. However, the Legislature reversed this direction during the 2002 special legislative sessions, and shifted funding back to the Workers' Benefit Fund.

Governor's Budget

The Governor's budget funds the Division at the 2003-05 legislatively approved budget level, adjusted for special session reductions, and base budget inflation and personal services adjustments. The budget includes a reduction of 2.88 FTE from the legislatively approved budget.

BOLI – Wage and Hour

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,343,947	3,083,329	3,177,659	3,148,036
Other Funds	2,422,330	1,923,090	1,988,963	2,102,644
Nonlimited	1,644,348	2,215,000	2,415,000	2,292,525
Total	**7,410,625**	**7,221,419**	**7,581,622**	**7,543,205**
FTE	39.00	33.50	33.50	29.75

Program Description

The Wage and Hour Division receives claims and complaints from workers involving wages and working conditions, including the minimum wage and overtime, and protects children in the workplace. The Division also enforces regulations pertaining to private employment agencies, conducts surveys and regulates prevailing wage rates on public works contracts, and licenses and regulates farm and forest labor contractors. The Division publishes prevailing wage rates.

Revenue Sources and Relationships

The Wage and Hour Division expects to receive $113,000 in licensing fees for farm/forest labor contractor licenses, about $1.9 million from assessments on public construction contracts for the Prevailing Wage Rate (PWR) program, and $580,000 in interest and recoveries for the Wage Security Fund. The Fund is dedicated to the payment of final wages for employees whose employers cease operations and default on final paychecks. It was transferred to the nonlimited budget by the 1995 Legislature. Over $3.9 million will be received for the Fund in 2001-03 from the .03 percent of unemployment tax premiums paid by employers during one quarter of each biennium.

Budget Environment

The Wage and Hour Division issued and renewed licenses to about 250 farm and forest labor contractors and conducted 400 investigations in the 1999-2001 biennium. The Division conducted 464 prevailing wage rate investigations in the 1999-01 biennium, which was an increase of 72 percent over the previous biennium. In the 1999-2001 biennium, the Division collected over $1.5 million in unpaid prevailing wages, 20 percent more than the previous biennium. The Division conducted 261 prevailing wage rage investigations during the first year of the 2001-03 biennium, resulting in collection of $1.2 million in unpaid prevailing wages. In the 1999-2001 biennium, 7,391 wage claims were filed, which is an increase of 40 percent over the prior biennium, and the Wage Security Fund paid $1.5 million in claims in calendar year 2000-2001. This was a 66 percent increase in claims payments, and was due in part to several large business closures. During the first year of the 2001-03 biennium, 3,560 wage claims were filed, and the Wage Security Fund paid $1.3 million in claims.

Governor's Budget

The Governor's budget funds the Division at the 2001-03 legislatively approved budget level, adjusted for special session reductions, and base budget inflation and personal services adjustments. The budget includes a reduction of 3.75 FTE from the legislatively approved budget.

BOLI – Apprenticeship and Training

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,508,227	2,566,169	2,536,937	2,513,947
Federal Funds	64,124	64,024	66,334	81,213
Total	**2,572,351**	**2,630,193**	**2,603,271**	**2,595,160**
FTE	24.25	19.75	19.75	17.00

Program Description

The Division promotes the development of a highly skilled workforce through partnerships with government, labor, business, and education, and provides apprenticeship opportunities for individuals. The 10-member Oregon State Apprenticeship and Training Council provides policy direction and approves local apprenticeship committees and their occupational standards. The Division conducts regular compliance reviews of the local committees to insure that apprentices are being treated fairly and receiving the best possible training. The Division is also responsible for maintaining a statewide registration of education and training programs for veterans and working in partnership with school-to-work programs, educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

Revenue Sources and Relationships

The Apprenticeship and Training Division is primarily funded with the General Fund, and will receive a federal grant of over $58,000 from the Veterans Administration for on-the-job training of qualified veterans.

Budget Environment

The Division registered over 2,674 new apprentices and maintains a registry of nearly 5,744 apprentices and over 4,300 participating employers. It conducts compliance reviews to insure that programs are acting in accordance with their standards and to assure that all apprentices are being treated equally.

Governor's Budget

The Governor's budget funds the Apprenticeship Division at the 2001-03 legislatively approved budget level, adjusted for special session reductions, and base budget inflation and personal services adjustments. The budget includes a reduction of 2.75 FTE from the legislatively approved budget.

The 2003-05 roll-up HB 5100 reductions equaled $1,116,229 General Fund, and $23,000 Federal Funds from the Veterans Administration grant. This would have eliminated the state apprenticeship program effective October 1, 2004. However, the Governor's budget restores this reduction with $788,188 General Fund, $23,000 Federal Funds, and 6.38 FTE, resulting in a net reduction of $328,041 General fund and 2.75 FTE. Of this reduction, 1.75 FTE will be eliminated as a part of the closure of the Bureau's Medford office. This includes one Apprenticeship Representative and support staff. The Apprenticeship Division will no longer have a presence south of Lane County and will serve southern Oregon from its Eugene office. This will result in delays in processing apprenticeship committee actions regarding registered apprentices and will result in additional time between compliance reviews. The Division will also eliminate an Apprenticeship Representative from its Portland office. The Division has eliminated six Apprenticeship Representatives since 1995. The elimination of this Apprenticeship Representative, following the Medford reduction, will disrupt the compliance review schedule for the 188 registered programs and the Division will be unable to assist in developing new programs outside the construction and manufacturing trades.

Board of Medical Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,217,053	6,117,760	6,287,318	6,890,328
FTE	30.96	31.00	31.00	32.40

Program Description

The mission of the Board of Medical Examiners is to protect the health, safety, and well being of Oregon's citizens by regulating the practice of medicine in a manner that promotes quality care. The Board of Medical Examiners licenses and regulates medical doctors, doctors of osteopathy, podiatrists, physician assistants, and acupuncturists. The Board has the authority to revoke or suspend the license or restrict the privileges of health professionals to practice in Oregon. The Board consists of eleven members appointed by the Governor and confirmed by the Senate. It includes seven medical doctors, two doctors of osteopathy, and two members who represent the general public.

The Board has two program units—the Operations Program Unit and the Health Professionals Program. The Operations Unit has 28.4 FTE and includes administration, initial and renewal licensing, public information, and complaint investigation. The Health Professional Program assists licensed health professionals who have substance abuse problems. The program is designed to offer a confidential avenue for practitioners to seek assistance and access treatment in the earlier stages of the disease. The diversion program represents approximately 11% of the Board's total budget, with the remainder used for Board Operations.

Revenue Sources and Relationships

The Board's derives 96% of its estimated $7 million of revenue from fees for licensure, examination, certification, and registration of the various health professionals under its jurisdiction. The remaining 4% of the agency's revenue comes from the sale of lists, directories, and other miscellaneous sources. The Board is required by ORS 677.290 to transfer $10 to the Oregon Health and Science University for each in-state registered physician to be used in maintaining a medical library. The Board expects to transfer about $178,620 to OHSU during the 2003-05 biennium which is used to give Board licensees and medical school students access to electronic databases of interest to the medical profession.

The Board increased most of its fees during the 1999-01 biennium and fees continue to be adequate to meet operating expenses.

Budget Environment

There are three main factors that influence the agency's budget: (1) the number of licensees, complaints, and participants in the Health Professionals Program; (2) regulatory responses to changes in the medical profession; and (3) demand for new ways for the agency to deliver services to its customers.

The Board oversees almost 13,000 health professionals divided among physicians, podiatrists, physician assistants, and acupuncturists. The number of new license applications continues to grow as schools expand to meet the ongoing demand for medical professionals. The number of applications requiring more special or more in-depth review of applicant history is growing too, but more rapidly than the number of new applications filed.

Like other state agencies, the Board of Medical Examiners has received requests from its customers to conduct more business and to provide more information over the Internet. The Board has made information on licensing status and disciplinary actions available on the Web greatly reducing the number of telephone inquiries about licensees, especially from hospitals anxious to put applicants coming into Oregon on the job. Even so, the agency receives over 2,200 complaints and inquiries each year. The number of complaints resulting in investigation has almost doubled from 1.88% of total licensees in 1998 to 3.25% of licensees in 2001. The number of complaints and investigations involving inappropriate care or treatment has almost doubled over the same time period.

The Board of Medical Examiners was encouraged by the 71st Legislative Assembly to help promote the education, recruitment, and entry into medical occupations by members of minority groups. To date, the Board has surveyed its licensees to determine racial and ethnic identity and non-English language competency. The

Board also collaborates with OHSU to fund outreach programs encouraging secondary education students to obtain the coursework needed to succeed in higher medical studies required to enter a medical profession.

The Board's fees are among the lowest in the western states for comparable licenses even though the agency maintains a relatively high ending balance. The 2001 Joint Committee on Ways and Means asked the Board to study the agency's cash flow and ending balance requirements and to assess the feasibility of renewing all licenses on licensee birthdays throughout the biennium in order to stabilize cash flow and workload. The study demonstrated the Board has an efficient means of managing workload at lower cost than going to a birthday system. The Board's ending balance continues to grow from the 9-month reserve of about $2 million in 2001-03 to almost $4 million representing a 16-month reserve by the end of 2003-05. Based on current agency use and industry growth, the Board is unlikely to face a cashflow deficit until 2009-11. This cashflow scenario is, however, consistent with the Board's historic cashflow pattern in which the ending balance peaks about four years after a rate increase then slowly declines over the next six to ten years as inflation outpaces revenues.

As an Other Funds agency, the Board of Medical Examiners was not impacted by the special sessions except to increase its expenditure limitation for the compensation package authorized during the third special session.

Governor's Budget

The Governor's recommended budget of $6.89 million of Other Funds is 9.6% higher than the 2001-03 Legislatively Approved budget. The increase is the result of these policy packages:

- The first package of $168,903 and 1.4 FTE addresses increasing workload in the Operations Program Unit. The package reclassifies one position and expands two positions, including the Board's Medical Director, from part-time to full-time.
- Two packages totaling $43,598 increase expenditure limitation in the Health Professionals program to address the expanding demand on the Medical Director and contract professionals to manage the increasing number of complaints alleging quality of care and to supervise probation and other diversions sanctioned by the Board. The increased limitation will meet increasing costs associated with contracting for Medical Consultants to review and make recommendations concerning complaints against licensees under review by the Board and/or oversee treatment of practitioners in the Health Professionals Program.
- The final package of $29,950 allows the Board to make necessary technology upgrades to Windows Network Servers, acquire a Database Backup and Development Server, and obtain Interactive Web Application Software to expand electronic transaction capabilities. The budget assumes these are appropriate interim steps for managing the Board's databases until communications lines become available to permit reliable access to the Timms-Hamby General Operations Center in Burns.

Board of Nursing – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,888,784	6,383,310	6,820,153	8,081,485
FTE	33.83	34.50	34.50	41.75

Program Description

The mission of the Board of Nursing is to protect public health, safety, and well being through the regulation of nursing practice and nursing education. The Board licenses and regulates nurses, nursing assistants, and advanced practice nurses. The Board has the authority to revoke or suspend the license or privilege to practice in the state. The Board consists of nine members appointed by the Governor. The agency is divided into four small divisions responsible for operations; licensing, and certification; complaint investigation and resolution; education and advanced practice regulation.

The Board also administers a Nurse Monitoring program to assist the licensed nurses who have physical, mental or substance abuse problems. The program provides information about approved treatment programs, formal intervention counseling, and on-going support and monitoring for individuals who have received treatment. Participants must maintain sobriety for five years to successfully complete the program. During that time, they may have restrictions on workplace setting or the type of nursing skills they may practice.

Revenue Sources and Relationships

The Board is supported solely by Other Fund revenues generated largely from license and examination fees. A small amount of revenue is from the sale of lists and directories and from fines and forfeitures.

The Board regulates nursing assistants (CNA's) in Oregon to comply with the Federal Omnibus Reconciliation Act of 1987. The Board receives funding for the CNA program through an agreement with the Department of Human Services (DHS). This consists of a Medicare (Title XVIII) grant which requires no matching funds plus a Medicaid (Title XIX) general grant which does require matching funds. For every dollar the Board transfers to DHS, it receives about $2 federal funds back. The Board expects to receive a net of $1,820,082 Federal Funds from DHS during the 2003-2005 biennium. These funds are spent by the Board as Other Funds.

The Board increased most of its fees during the 1999-01 biennium to rebalance its fee structure to reflect agency growth throughout the 1990s. Since then, environmental factors, primarily due to the nursing shortage and higher demand for nurses, have stressed agency resources. The Board recommends increasing fees this biennium to allow the Board to adequately staff essential functions to meet that demand and retain an adequate ending balance equal to about four months' expenses.

Budget Environment

The agency's budget is primarily influenced by three factors: (1) the number of licensees, complaints, background checks, and participants in the Nurse Monitoring program; (2) the complexity and breadth of its regulatory activities; and (3) demands for new ways for the agency to deliver services to its customers. The Board licenses approximately 41,000 registered and licensed practical nurses; 2,215 nurse practitioners, nurse anesthetists, and clinical nurse specialists; and certifies 16,000 nursing assistants (CNA) and medication aides. The number of license applications and renewals has been fairly constant over the last biennium and is only expected to increase slightly over the next five years. Although the number remains fairly constant, the number of persons entering and not staying in the nursing profession is also fairly high increasing the work associated with educating new licensees and applicants in process issues.

The nursing practice, investigations and compliance functions, are served by 11.0 FTE who investigate complaints regarding violation of the Nurse Practice Act and recommend disciplinary action to the Board. On average, 600 to 700 formal complaints are investigated, 1,000 to 1,500 informal inquiries are conducted, and 100 in-service training courses are offered each year. Law Enforcement Data system checks are performed on all initial and renewal applications totaling about 38,000 per year. The Nurse Monitoring program, administered by 3.0 FTE, provides an alternative to discipline for nurses with substance abuse, physical or mental health disorders. There are about 307 participants in the program compared to 246 at the same time in the 2001-2003 budget cycle, a 25% increase.

The licensing and certification function is divided into four elements administered by 18 positions (17.75 FTE). The Board receives about 38,000 applications per year averaging 2,000 nursing and 1,000 CNA certificates each month. The Board opened a customer service and production center in 2002 to more effectively respond to inquiries by applicants, licensees, and the public. The center averages 7,000 calls per month and as many as 490 calls in a day. The production center scans all applications for completeness when received then completes the licensing process by printing and sending license cards. A third section processes tests for nursing assistant certification averaging about 500 tests per month. A fourth section surveys nursing education programs to ensure they meet Board standards, reviews credentials for advanced practice applicants and designs re-entry programs for nursing professionals. Budget resources for this function are divided by about 50% to nursing and advanced practice, 16% to licensing of CNA's, and 34% to training and testing of CNA's.

In Oregon and across the nation, adequate health care increasingly depends on a sufficient supply of nurses and nursing assistants as they are not only the largest group of health care workers but also closest to patient care. Health Care could be jeopardized by the convergence of three trends: a rapid increase in the number of elderly Oregonians requiring nursing care, the retirement or dropout of an already aging and overworked generation of nurses and the steep decline in the number of people entering the nursing profession. The Board is a vital player in decisions regarding how to increase the supply of nurses and nursing assistants to enter the workforce while maintaining the standards of practice to ensure quality of care. One means of increasing the supply of licensed nursing professionals is to standardize licensing requirements across state lines. The Board supports legislation for Oregon to participate in an interstate compact allowing the Board to recognize a nurse holding a valid license in other participating states to practice in Oregon without relicensing here.

As an Other Funds agency, the Board of Nursing was not impacted by the special sessions except to increase its expenditure limitation for the compensation package authorized during the third special session.

Governor's Budget

The Governor recommends a budget of $8,081,485 which is 22% above the 2001-03 legislatively approved budget. The increase is attributed to the following policy packages:

- Expansion of the Customer Service and Production Center that would reclassify three existing positions currently paid out of class to Public Service Rep 3 (PSR3), and increase one of those positions to full-time. The package requests a Principal Executive Manager B to oversee the center and replace an existing limited duration position. Finally, the package adds one Office Specialist 2 and two permanent, part-time PSR3 to replace temporary employees currently doing the work. The total package adds $345,624 Other Fund expenditure limitation and 3.75 FTE representing 4 positions.
- Enhancement of investigative capacity by adding one part-time secretary, one nurse consultant and one investigator. The nurse consultant would concentrate on policy analysis and research and provide advice on nursing practice issues. The investigator would focus on law enforcement data system checks and aid in the Nurse Monitoring program. The secretary would support the nurse monitoring program and investigators. Total cost of the package is $305,792 Other Fund expenditure limitation and 2.5 FTE.
- Fingerprinting certain applicants. This package, attached to proposed legislation, adds $12,600 Other Fund expenditure limitation for fingerprinting of certain applicants allowing access to a federal crime information database.
- Expand information technology use by adding a scanner station, fax server, and new copier and adding a limited duration database administrator to complete several enhancements to expand the Board's use of e-commerce techniques. This is expected to be a one-time package totaling $210,661 Other Fund expenditure limitation and one limited duration position (1.0 FTE).
- Reconfiguration of the office to reconfigure some work stations to better utilize available space and furnish a conference room, including an audio system and video conferencing equipment. The conference room is used by other boards and commissions house in the same building. The Board estimates a one time cost of $200,000 to be funded from the Board's ending balance.
- Finally, a fee increase of $20 per biennium for the registered nurse and license practical nurse initial and renewal licenses, and increase CNA examination fee by $10, CNA endorsements by $2, and CNA renewals by $5. Total revenue increase is projected to be $976,200 and is earmarked to the service expansions described above.

Board of Psychologist Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	557,456	591,257	605,383	663,918
FTE	2.50	2.50	2.50	2.50

Program Description

The Board of Psychologist Examiners sets standards for continuing education, examination, and licensing of psychologists and psychologist associates. The Board has seven members (five psychologists and two public members) appointed by the Governor.

Revenue Sources and Relationships

The Board is supported by the collection of fees for services relating to applications, examinations, licenses and license renewals. Due to a shortfall in anticipated revenue, the Board instituted, through administrative rule and with approval of the Department of Administrative Services, a fee increase effective October 15, 2000. The 2001 Legislative Assembly ratified this fee increase in SB 5550.

During the 2001-03 biennium, the Board temporarily lowered fees in an effort to lower their ending cash balance. The new fees were adopted by the Board through administrative rule and became effective on October 2001. The Board projects an ending cash balance of $230,907 at the end of the 2003-05 biennium which represents approximately a 9-month operating reserve. The fees were decreased as follows:

FEE NAME	2001 FEE	October 2001 FEE
Active Psychologist Renewal Fee	$275	$255
Initial License Fees	$150	0
Inactive License Renewal Fees	$125	$25

Budget Environment

The Board's workload is dependent upon the number of requests for licensure and complaints in any given time period. The Board has seen a steady increase in inquiries regarding the regulation and practice of psychology and an increase in investigations of unlicensed individuals purporting to practice psychology. Because of the increasing number and complexity of complaint issues, the Board continues to have a backlog of unresolved complaints. The Board aggressively pursues all consumer complaints relating to both the unethical and unlicensed practice of psychology. The Board receives more than ten calls per month inquiring about the ethical practice of psychology in the state. This results in an average of 60 Board investigations per year.

The Board processes approximately 150 applications for initial licensure and 1,100 renewal licenses as a psychologist or psychologist associate annually. This includes verification of education, work experience, other credentials, and references. The Board is experiencing an increase in candidates who are licensed in other states and who are relocating to Oregon.

There is pending legislation (SB 214) that would grant semi-independence to the board and remove the Board from the state budget system which would significantly reduce oversight by the Executive Branch and Legislature. Also pending is SB 155 which modifies and clarifies the requirements for licensure by reciprocity.

Governor's Budget

The Governor's recommended budget of $663,918 is a 10% increase over the 2001-03 legislatively approved budget. No program enhancements were requested.

Public Utility Commission (PUC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	39,337,481	31,668,905	32,467,867	35,040,668
Federal Funds	293,978	290,904	302,965	337,108
Nonlimited	0	243,100,000	243,100,000	121,920,072
Total	**39,631,459**	**275,059,809**	**275,870,832**	**157,297,848**
FTE	121.04	122.00	122.00	125.50

The three-member Public Utility Commission (PUC) regulates investor owned electric and natural gas companies as well as certain telephone and water utilities. A staff of economists, engineers, financial analysts, safety inspectors, administrative law judges, compliance specialists, and others support the Commission in carrying out its responsibilities. Under HB 3615 from the 1999 legislative session, the Governor appoints the Commission Chair.

PUC – Utility Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	23,311,785	8,030,512	8,309,597	9,176,109
Federal Funds	293,978	290,904	302,965	337,108
Nonlimited	0	243,100,000	243,100,000	121,920,072
Total	**23,605,763**	**251,421,416**	**251,712,562**	**131,433,289**
FTE	67.50	42.00	42.00	42.00

Program Description

The Utility Program is intended to assure that every utility under its jurisdiction furnishes adequate and safe service. In addition, for investor-owned utilities, the PUC ensures these services are provided at fair and reasonable rates, while allowing utilities the opportunity to earn a reasonable rate of return. The program also implements state policy regarding utility industry restructuring and competition.

Revenue Sources and Relationships

Other Funds are derived primarily from fees assessed on regulated utilities. For natural gas and water utilities, an assessment is made on gross operating revenues. For telecommunications providers, HB 2578 from the 1999 legislative session changed the funding base to include all providers but narrowed the type of revenues to gross intrastate retail sales, excluding wholesale revenues. Because of industry changes and competition among utilities, assessed revenues are not expected to increase over the next five years. Therefore, the PUC expects to continue the assessment at the statutory maximum of .25 of 1%, which has been in effect since early 1997.

The 1997 Legislature changed the basis for calculating assessments on electric companies from per dollar of gross operating revenues to per kilowatt-hour of electricity delivered. The change, effective January 1, 1999, limits the rate to an average of 0.18 mil ($0.00018) per kilowatt-hour delivered. The PUC intends to set the level within this limitation to ensure the electric industry is paying approximately the same total fees as in prior years.

SB 622, from the 1999 legislative session, established the Oregon Universal Service Fund to subsidize the rates charged by any eligible carrier providing basic telephone service in high cost areas. The Commission is forecasting that it will receive almost $122 million in revenue from the Fund during 2003-05, of which 99.9% will be passed through to providers. The remaining funds will be used to cover the agency's costs of administering the program. Pass-through amounts are reflected as non-limited funds in the agency's budget.

SB 1149, also from the 1999 legislative session, allows the PUC to use funding from a public purpose charge on electric utilities to pay for certain of its electric industry restructuring activities required by the legislation. However, HB 3633 from the 2001 legislative session delayed restructuring and collection of the public purpose charge from October 1, 2001 until March 1, 2002. From March through August 2002, nearly $21.8 million was disbursed for the five public purpose programs.

Federal Funds are received from the U.S. Department of Transportation's Gas Pipeline Safety Program to enforce federal pipeline safety regulations. PUC estimates that it will receive $377,209 of Federal Funds.

Budget Environment

The PUC's primary emphasis is its shift from utility monopoly regulation to service protection in an increasingly competitive environment in both the telecommunications and electric industries. The PUC's key challenges are to promote competition while incumbent utilities still exercise considerable market power and to ensure universal availability of affordable services. Historically, electric industry restructuring and competition issues in both industries have increased the demands on staff.

Governor's Budget

The Governor's recommended budget is a 48% decrease over the 2001-03 legislatively approved budget due to a decrease in estimated nonlimited funds. The Governor's recommended budget excluding the nonlimited funds decrease is a10% increase over 2001-03 legislatively approved budget.

PUC – Residential Service Protection Fund

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	8,121,842	9,595,362	9,622,858	9,974,217
FTE	6.00	5.00	5.00	5.00

Program Description

The Residential Service Protection Fund (RSPF) programs provide telecommunications services for the disabled, including the hearing- and speech-impaired, and low-income individuals. The RSPF has three separate components: the Oregon Telephone Assistance Program (OTAP) subsidizes local telephone service rates to eligible low-income Oregonians by providing a $13.00 monthly reduction for basic telephone service; the Telecommunication Devices Access Program (TDAP) provides special communication devices to deaf, hearing and/or speech impaired, or others with disabilities which prevent them from using telephones; and the Oregon Telecommunications Relay Service (OTRS) 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.

Revenue Sources and Relationships

The Other Funds supporting all three program components are derived from a monthly surcharge levied against local telephone lines with access to the relay. By law, the PUC can levy a surcharge of up to 35 cents monthly. The current surcharge is 13 cents. The Commission is forecasting revenues of $11 million for 2003-05.

Budget Environment

The demand for telephone bill assistance and other special telephone service programs continues to increase. The primary reasons for the increase include an increased outreach awareness of the telecommunication assistance programs; rapid increases in hearing loss as the population ages, or job loss that make telephone bill assistance a necessity.

Governor's Budget

The Governor's recommended budget of $9,974,217 is a 4% increase over the 2001-03 legislatively approved level.

PUC – Policy and Administration Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	7,903,854	14,043,031	14,535,412	15,890,342
FTE	47.54	75.00	75.00	78.50

Program Description

This program includes the Commission, the Administrative Hearings Division, the Central Services Division, Personnel Services, Economic Research and Financial Analysis Division, and the Regulatory Operations Division. The Commission consists of three persons appointed by the Governor and is responsible for setting policy, and making decisions on utility rates and service matters. The Administrative Hearings Division conducts hearings and provides recommendations to the Commission for cases involving utilities, industrial customers, consumer groups, and competitors. The Central Services Division provides personnel, budget, accounting, and central support to the agency. This Division also includes the Consumer Services Section, which responds to customer complaints about the activities of regulated utility companies. The Economic Research and Financial Analysis Division evaluates proposed mergers; analyzes utilities' cost of capital, and forecasts electric utility loads and power costs. The Regulatory Operations Division processes all utility filings.

Revenue Sources and Relationships

With the exception of the Regulatory Operations Division, the Economic Research and Financial Analysis Division, and Utility Support Services, Other Funds revenues are derived from transfers from the Utility and RSPF programs. Revenues also include $13,000 from the Land Use Board of Appeals for administrative support to this agency, which is housed in the PUC building. The Regulatory Operations Division, the Economic Research and Financial Analysis Division, and Utility Support Services are supported directly by the fees assessed on regulated utilities.

Budget Environment

Population growth, competition in previously monopolistic markets, industry restructuring, and federal regulations impact the program's workload. Over several biennia, the PUC has had to resolve a growing number of increasingly complex disputes.

For the period from 1994 to 2001, inquiries to the Consumer Services Section increased 312%, and have increased through May 2002 another 23% over the same period in 2001. The increase in calls reflects the changes in the utility industry. The agency has responded to these increases with process improvements such as an automated call distributing system, PUC website and e-mail referral for consumers, as well as development of expanded consumer information packets.

Governor's Budget

The Governor's recommended budget of $15,890,342 is a 9% increase over the 2001-03 legislatively approved budget. The budget provided additional funding for reclassifications due to expanded duties of 3 Executive Support Specialist positions, one Program Technician position, and one Support Services Supervisor position ($34,271). Additionally, the budget included the replacement of one limited duration Administrative Law Judge position with a permanent position ($167,882), and one law clerk position (.50 FTE) to provide legal assistance to the Administrative Law Judges ($47,191). Finally, the budget included funding, contingent on passage of HB 2198, for 2 staff positions to regulate slamming (unauthorized changes of telephone service) and cramming (unauthorized telephone charges) ($192,908). Policy packages total $442,252.

Real Estate Agency – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,205,311	5,712,296	5,908,122	6,626,854
FTE	31.91	31.66	31.66	30.00

Program Description

The Real Estate Agency is responsible for the licensing, education, and enforcement of Oregon's real estate laws applicable to brokers, salespersons, property managers, and real estate marketing organizations; licensing and regulation of escrow agents; and registration and public report issuance for campground contract brokers, subdivisions, timeshares, and condominium developments. The agency approves courses and develops curriculum requirements for its licensees, administers real estate examinations, audits licensees, and investigates complaints made concerning its licensees and regulated activities. The Real Estate Commissioner, who is appointed by the Governor, administers the agency. The agency supports the Real Estate Board, whose seven industry members and two public members are appointed by the Governor.

Revenue Sources and Relationships

The Real Estate Agency is funded entirely with Other Funds consisting of licensing and registration fees and renewals; charges for examinations; the sale of publications and educational seminars; and other services. Real estate licensing, examination, and education activities produce almost 96% of the agency's total revenues. Activities relating to licensing and auditing escrow agencies contribute just under 2% of total revenue. Activities relating to registration and filings for campgrounds, subdivisions, timeshares, and condominium developments contribute the remaining 2.6%.

The agency estimates revenues in 2001-03 will be $5.6 million, an increase of about 1% over the previous biennium. Although the number of licensees has increased slightly thus far in 2001-03, this increase is not expected to continue and is anticipated to decline as has been experienced since 1995. Revenues for 2003-05 are projected to be $5.3 million. These estimates are partially based on the economic forecast, the cyclical nature of the real estate/housing market, a two-year license process, and past experience of the agency.

Budget Environment

The budget is driven by the number of licensees, which, in turn, expands or contracts with the state's economy and the real estate/housing market. Current factors affecting the industry include the following:

- Mortgage rates are at a forty year low resulting in a rather robust real estate industry, particularly given the economic conditions;
- The construction sector is predicted to recover in 2003 and 2004;
- Those holding real estate licenses are aging, and many licensees are approaching retirement age;
- Fewer young people are entering the real estate business because of the availability of other well-paying jobs with security and benefits that real estate firms may not offer;
- The industry has become more complex and competitive;
- Use of the Internet for advertising property for sale has increased, which affects the use of real estate personnel by the public;
- Use of technology - such as cellular phones, personal computers, and portable fax machines by real estate personnel - increases the number of real estate agents working from their homes and cars rather than a central office; and
- A trend has existed toward franchising, mergers, and mega-offices.

Due to these factors, the agency anticipates a continuing decline in the number of licensees, offices, and applicants.

Governor's Budget

The Governor's recommended budget is a 12.2% increase over the 2001-03 legislatively approved budget. The increase can be attributed to roll-up costs of personnel actions made in the 2001-03 biennium, inflation, and information technology projects. The agency proposes using the Internet to process licensing transactions and would also develop a secure, computer based examination system in cooperation with Community Colleges.

Board of Tax Practitioners – Agency Totals

	1999-01 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	845,057	888,913	917,633	880,958
FTE	4.00	5.00	5.00	4.00

Program Description

The Board of Tax Practitioners is a seven-member citizen board that protects consumers by ensuring Oregon tax practitioners are competent and ethical in their professional activities. It accomplishes this by licensing and overseeing tax preparers, tax consultants, and tax businesses. Currently, the Board regulates about 2,200 tax consultants, 1,800 tax preparers, and about 1,500 tax businesses per year. It develops initial competency examinations and monitors required continuing education programs for tax preparers. It investigates complaints filed concerning personal tax return services by licensees and unlicensed persons and takes disciplinary action when appropriate. A four-person staff administers Board programs. Prior to January 1, 2002, the Board was known as Board of Tax Service Examiners.

Revenue Sources and Relationships

The Board's Other Funds come principally from annual licensing and business registration fees. Fees are also charged for the administration of licensing examinations. Fees are established by rule but are limited by statute. Tax preparer license fees are $65, tax consultant license fees are $75, and business registration fees are $95. The Board expects to collect $576,000 in licensing fees, $131,000 from business registration fees, $144,000 from examinations, $30,000 from fines and penalties, $45,000 in pass through revenues for community colleges administration of examinations, and $24,000 in other miscellaneous revenue for the 2003-05 biennium.

Budget Environment

The number of professionally prepared income tax returns is expected to increase due to the growth in Oregon's population, the economy, the complexity of the tax code, and heightened consumer awareness of services. The Board expects the number of tax practitioners and tax businesses to grow accordingly. The number and severity of complaints filed with the Board has also increased substantially over the past biennium. The Board has experienced serious cash flow problems since the 1997-99 biennium. Fees were statutorily set and expected growth in number of licensees did not materialize. While fees were changed for the current biennium, the Board still experienced severe cash flow problems. It expects its cash flow to stabilize during the 2003-05 biennium.

Governor's Budget

The Governor's budget is 4% less than the legislatively approved 2001-03 budget. It also has one less FTE than currently authorized. The reductions are necessary to bring the budget in line with expected revenues and still provide for a reasonable ending balance to begin the 2005-07 biennium.

ADMINISTRATION

Department of Administrative Services (DAS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	2,729,599	7,891,677	6,246,964	5,322,856
Lottery Funds	0	534,003	381,342	1,622,874
Other Funds	188,724,406	197,090,558	220,808,867	257,440,459
Federal Funds	473,407	564,653	765,168	0
Nonlimited	167,357,009	247,366,817	279,550,110	225,945,013
Nonlimited Debt Service	29,264,738	32,143,588	59,615,545	29,869,468
Total	**388,549,159**	**485,591,296**	**567,367,996**	**520,200,670**
FTE	836.40	936.39	933.48	919.45

The Department of Administrative Services (DAS) is the central administrative agency that supports other agencies of state government and coordinates statewide services. The Department has numerous divisions responsible for a variety of disparate functions. It operates centrally located motor pools, operates and maintains facilities, and provides printing, information technology consultation, and computer services. The Department also distributes federal, lottery, and state funds to cities, counties, and other state agencies. It also collects and distributes mass transit assessments.

Revenue Sources and Relationships

The Department's operating revenue comes primarily from fees charged for services provided to state agencies and from the statewide assessment. The Department establishes rates for these direct services and charges agencies based on how much of the service they use. It also provides indirect services to state agencies, such as the services provided by the Director's Office, Budget and Management Division, and Human Resource Services Division. Because a unit rate and usage volume cannot be determined directly, DAS recovers the cost of these services through a "statewide assessment," which is included in all state agencies' budgets as a line item expense titled "State Government Service Charges." Although services that are supported by the assessment cannot be directly measured and identified to each agency receiving the service, the Department makes an effort to allocate the assessment equitably.

DAS – Office of the Director

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	288,962	211,822	217,177	233,484
Other Funds	2,734,580	3,155,629	3,589,470	3,753,730
Total	**3,023,542**	**3,367,451**	**3,806,647**	**3,987,214**
FTE	13.63	14.50	14.50	17.00

Program Description

The Director is responsible for managing and coordinating the policies, programs, and services of the various divisions within the Department. Also, as head of state government's central administrative agency, the Director is responsible for coordinating policy among the various state agencies and setting guidelines for developing and executing the Governor's budget. The Office of the Director now has the following units:

- ***Agency Administration*** includes the Director, Deputy Director, Director for Operations, and support staff.
- ***Office of Economic Analysis*** produces the Oregon Economic and Revenue Forecast and Criminal Justice Population Forecast.
- ***Internal Audits*** is responsible for conducting internal audits.
- ***Government Affairs and External Relations*** is responsible for legislative coordination and communications with agencies and the public.

Revenue Sources and Relationships

The General Fund supports the Prison Population Forecast. Otherwise, the Office is supported through an assessment of state agencies.

Budget Environment

The Office of the Director is purely an administrative office within an administrative agency. Its budget is based upon the amount of support needed within the Department and within state government. The Office of the Director wants to ensure that the Department of Administrative Services is a management model for all state agencies.

Governor's Budget

The Governor's budget reflects the internal transfer of three positions (3.0 FTE) to the Office and the transfer of one position (0.50 FTE) associated with the Highway Cost Allocation Study work previously conducted by DAS, which is proposed to be transferred to the Department of Transportation. It restores one-time reductions taken during special sessions and includes adjustments for inflation and expected salary and wage increases.

DAS – Budget and Management Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,785,619	8,630,505	8,700,870	8,815,806
Nonlimited	60,908	100,000	100,000	76,500
Nonlimited Debt Service	197,223	1,789,634	1,789,634	1,943,695
Total	**6,043,750**	**10,520,139**	**10,590,504**	**10,836,001**
FTE	35.04	34.50	34.50	33.50

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent with legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of Certificates of Participation (COPs), Tax Anticipation Notes (TANs) and Lottery Revenue Bonds. It recently completed development and implementation of the first phase of a new statewide budgeting system (ORBITS).

Revenue Sources and Relationships

The Budget and Management Division is funded through assessments of state agencies ($7.5 million). An additional $3.1 million will be provided from the issuance of COPs. The balance of the Division's planned expenditures will be funded with carry-forward cash balance from COPs previously issued for the ORBITS project.

Budget Environment

The Division's budget relies entirely on the ability of agencies to pay their assessments. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work. Agencies understandably chafe at paying for a Division whose main responsibility is to review agency operations, analyze budget and Emergency Board requests, and make recommendations on those requests.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It also includes nine limited duration positions (9.0 FTE) to continue work on the ORBITS project. This next phase of the project will bring additional critical core system elements on line. The budget includes adjustments for inflation and expected salary and wage increases.

DAS – State Controllers Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	7,037,917	7,919,820	8,227,206	9,199,069
Nonlimited	8,473,610	11,581,700	11,581,700	13,332,954
Nonlimited Debt Service	5,368,787	5,319,175	5,319,175	2,653,328

Total	**20,880,314**	**24,820,695**	**25,128,081**	**25,185,351**
FTE	48.67	53.00	52.32	51.00

Program Description

The primary role of the State Controllers Division is to support and ensure accuracy and accountability in state government financial systems by providing services and controls in the management of statewide accounting, receivables, financial reporting, and payroll functions. It also supports budget and financial and accounting support to a number of small state agencies, including the Office of the Governor.

Revenue Sources and Relationships

The Division receives its revenue from an assessment of state agencies ($15.0 million) and from direct charges for processing warrants and payroll checks/stubs ($5.9 million). Assessments are based on analyses of services provided. The assessment has been reduced from 2001-03, primarily by using the Division's carry-forward cash balance. Direct charge rates have increased due to additional system maintenance and internal control functions recommended by the Secretary of State Audits Division.

Budget Environment

The Division's budget relies on the ability of agencies to pay their assessments and direct charges. Department management must ensure that the Division does its job properly, using only resources necessary to accomplish the work.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. The budget includes adjustments for inflation and expected salary and wage increases. The budget phases out two limited duration positions (1.66 FTE) and continues one permanent position (0.34 FTE) provided for the state's E-commerce initiative. It also includes one Policy Option Package of $79,678 to support statewide revenue services.

DAS – Information Resources Management Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	43,194,660	45,365,991	50,710,601	72,242,212
Nonlimited	60,726,627	79,779,518	79,779,518	99,873,238
Nonlimited Debt Service	813,442	1,337,752	1,337,752	2,118,888
Total	**104,734,729**	**126,483,261**	**131,827,871**	**174,234,338**
FTE	148.31	176.00	173.62	307.55

Program Description

The Information Resources Management Division (IRMD), encompasses computer and information services, telecommunications, and video teleconferencing, and is responsible for central review and coordination of the acquisition by state agencies of all major telecommunication and information technology systems including hardware and software.

The Division has six separate sections for budgetary purposes:

- ***Corporate Services and Administration*** provides administrative support.
- ***Strategic Planning and Review*** reviews state agency information technology plans, projects, hardware and software acquisition, and consultant contracts.
- ***Application Service Providers*** provide systems integration for electronic commerce, the General Government Data Center, data archiving, geographic information systems, database management and other related services. It will house the new Oregon Center for Electronic Commerce and Government.
- ***Enterprise Network Services*** provides voice, video, and data services. It is responsible for the State of Oregon Enterprise Network (SOEN).
- ***Statewide Technical Education Program Services*** provides state employees with technical education and training.
- ***Publishing and Distribution Program*** provides complete electronic "print-to-post" services to state agencies, provides printed and electronic document services to public agencies, and operates a secure print facility for printing checks, warrants, and negotiable documents. It also collects, processes, and distributes federal and interagency mail in the Willamette Valley.

The Division has been involved in an internal review and reorganization. It is expected the results of that reorganization will be explained during the budget hearings. Regardless of where activities are placed, or how they are labeled, the underlying responsibilities, activities, and expectations of the Division should not be different from those the Legislature has funded.

Revenue Sources and Relationships

The Division receives a small portion of its revenues from assessments of state agencies. Agencies are assessed for the Division's role in information technology planning and review ($3.5 million), E-government support ($2.8 million), and maintenance of a centralized Geographic Information System ($1.5 million). It also includes an assessment for inter-office mail delivery services ($1.9 million) that previously were provided by another division. Another $3.3 million will be provided by issuance of COPs. The Division also expects to have a carryforward balance of about $8.3 million. The balance of the Division's estimated $190 million in revenues comes largely from various systems and services usage fees. The Division has an extensive rate schedule for the myriad services it provides to state and local agencies. Demand for services is heavily driven by the state's policy movement toward increased use of telecommunications and electronic processes in government. It is also driven by demand for printing and distribution services, not only from state agencies, but also from local government units.

Budget Environment

As state government becomes more dependent on technology for the delivery of services within and without, the role of the Division takes on additional meaning as the central information technology repository. The coming foray into conducting state government business over the Internet requires information systems security and protocols that protect confidentiality and privacy, while ensuring that financial transactions and activity are properly safeguarded. The increased interconnectivity of information technology and print media, coupled with the demand for economies of scale and cost effectiveness of bulk mail and pre-sorted, zip+four first class mail has increased work levels in the publishing and distribution area.

Governor's Budget

The Governor's budget continues the operations of the Division with the added staff (138.55 FTE) and functions associated with the transferred publishing and distribution program. In addition to additional staff, the transfer of publishing and distribution adds $44 million to the Division's budget. The budget also reflects the transfer of one position (1.0 FTE) to the Operations Division. It includes increases for expected inflation and additional personnel related expenses. It also phases out seven limited duration positions authorized for the 01-03 biennium.

The budget includes a reduction of $4.5 million for services and supplies and capital outlays. To offset the loss of contract services for systems and database support under this reduction, the budget adds two positions (2.0 FTE) and $406,772 to maintain essential systems and database support in-house.

Additionally, the budget includes the following Policy Option Packages:

Description	FTE	Amount
Add 3 permanent positions that were limited duration positions in 01-03	3.00	$456,448
Funding to continue E-government activities/program		$1,983,626
Add 1 permanent position as part of consolidation of mail operations from Department of Revenue	1.00	$178,619
Professional services for systems development for E-procurement project		$3,345,180
Funding for statewide technology infrastructure needs		$3,901,608

DAS – Public Employees Benefit Board

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	2,160,010	2,252,255	2,298,362	4,018,634
Nonlimited	504,730	49,377,206	49,377,206	28,448,793
Total	**2,664,740**	**51,629,461**	**51,675,568**	**32,467,427**
FTE	13.68	13.68	13.68	16.68

Program Description

The Public Employees Benefit Board started operations January 1, 1998, when the State Employee Benefits Board and the Bargaining Unit Benefits Board were abolished. The Board contracts for and administers health and dental insurance for state employees and their dependents, representing over 110,000 Oregonians. The Board also selects and administers life and disability insurance coverage for eligible state employees. A major part of the Board's responsibility is developing benefit packages to meet the needs of customers of the two previous boards, and preparing benefits information and answering inquiries from employees and their dependents about coverage.

Revenue Sources and Relationships

Board operation is funded through an administrative charge (assessment) added to the employees' health insurance premiums. By law, the assessment cannot exceed 2% of monthly premiums. Currently, the charge, or assessment, is 0.6% of monthly premiums. Additionally, the Board receives a portion of employee "opt-out" contributions which are placed in a stabilization fund that is used to help stabilize contribution rates and provide wellness and education activities. The Board also is reimbursed the cost of annual open enrollment activities from insurance companies. In 1999, the Board received $19.5 million when Standard Life Insurance Company changed from a mutual life insurance company to a stock life insurance company. The $19.5 million is currently earning interest, while the Board seeks a court ruling on how the funds may be used. The Oregon Health Sciences University and two individuals have file lawsuits seeking some of the money. It is not known when the issue will be resolved.

Budget Environment

Demand for the Board's services has been increasing because of issues surrounding health insurance costs. Dealings with current and prospective providers also have placed additional demands on staff. Additional employee benefit packages that may be mandated by statute or arrived at through collective bargaining agreements can impact workload. The Nonlimited portion of the Board's budget is for open enrollment period expenses and health insurance premiums, paid to insurance carriers. In addition, the Board has a stabilization reserve which it can use to reduce the cost of employee insurance premiums, provide wellness and education activities, and cover health plan liabilities that may arise from contractual risk-sharing agreements. Other Board operating activities are subject to expenditure limitation.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. The budget includes three additional permanent positions (3.0 FTE) to cope with increased workload demands. It also includes $870,993 to complete and maintain the new Benefit Management System approved by the 2001 Legislative Assembly.

DAS – Human Resources Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	8,294,386	9,826,768	9,586,762	10,185,468
Nonlimited	657,179	694,639	694,639	1,360,272
Total	**8,951,565**	**10,521,407**	**10,281,401**	**11,545,740**
FTE	52.46	54.00	54.00	52.42

Program Description

This Division provides central personnel-related services to help agencies obtain and retain a skilled workforce. Through administrative rules and policies and collective bargaining agreements, the Division defines and manages the state's human resources system based upon equal employment opportunity and a merit-based compensation system. The Division maintains the state's classification and compensation systems. It also maintains the centralized position and personnel database (PPDB), which captures position and employee information for all employees other than higher education academic staff. In addition, it provides training to new board and commission members, and training and consultation to state agency management on human resources issues.

Revenue Sources and Relationships

The Division's principal revenue source is from an assessment ($11.9 million) of Executive Branch state government agencies excluding the Department of Higher Education. Legislative and Judicial Branch agencies and the Lottery Commission pay a reduced assessment to use the centralized employee database. A much smaller amount of revenue is provided from specialized training sessions and executive recruitment services ($370,000). Included in the $11.9 million assessment is $809,448 for two Policy Option Packages that ultimately did not become part of the Governor's recommended budget.

Budget Environment

The Division's budget is largely affected by its ability to assess other state agencies. To that extent, it must justify its budget to its Department head and more particularly the Legislature. Complaints about the amount of the assessment compared to services provided can cause a more thorough review of Division activities and performance outcomes. The Division intends to meet this challenge by ensuring that it delivers good service at a reasonable cost. Because of the unique nature of government personnel laws, rules, and regulations, it is somewhat difficult to make comparisons or develop performance measures.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. The reduction in FTE is due to phase out of a limited duration position and other personnel adjustments.

DAS – Procurement, Fleet, and Surplus Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	39,084,679	43,989,333	44,199,127	32,604,246
Nonlimited	40,735,084	39,716,409	39,716,409	13,841,508
Nonlimited Debt Service	2,146,666			
Total	**81,966,429**	**83,705,742**	**83,915,536**	**46,445,754**
FTE	234.14	265.21	265.21	116.80

Program Description

The Procurement, Fleet, and Surplus Services Division is organized into the following five units: Administration; Purchasing Operations; Fleet Management/Motor Pool; State Surplus Property; and Federal Surplus Property. The primary role of this Division is to provide cost effective central services to state agencies and local governments in the following areas: purchasing, motor pool/fleet services, and surplus property.

Revenue Sources and Relationships

Operations of the Division are entirely self-supporting. Division Administration is funded through revenue transfers from the four other operating units.

Purchasing operations are supported through service charges (price list) of $3.9 million based on volume of transactions and number of agency positions. An additional $4.5 million is provided through other direct fees for services and purchasing, consulting, and training fees.

The Fleet Management/Motor Pool operations are supported entirely through fees for services, principally fleet rental charges. In addition, the unit charges agencies that own vehicles for fueling, service, and repair fees. State Fleet Operations revenues are budgeted at $39.9 million for the 2003-05 biennium.

State and Federal Surplus Property operations together generate revenue from service fees. For state surplus items the fees ($2.2 million) are based on the value of the items sold for state agencies disposing of the surplus property. For federal surplus property the service fees ($2.3 million) are charged to agencies acquiring the property through the Division based on the value of the federal surplus property acquired.

Budget Environment

Demand for services drives the budget of this division. Significant growth has occurred in its fleet operations, purchasing, and surplus property services.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. The reduction in FTE is due to the transfer of

138.55 FTE to the Information Management Resources Division, other internal transfers, the phase out of limited duration positions, elimination of one vacant position, and other personnel adjustments. The budget includes an additional $400,000 for additional Attorney General costs of legal sufficiency reviews and other purchasing related legal services. Additionally, $708,598 of additional expenditure limitation is provided for computer support and maintenance costs of IRMD. This involves no new costs as these costs previously were

accommodated by revenue transfers to IRMD and expenditure limitation is provided this biennium for budgetary control purposes only.

DAS – Facilities Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	24,934,805	28,571,375	28,808,109	32,440,517
Nonlimited	6,864,197	7,666,006	39,849,299	7,934,316
Nonlimited Debt Service	19,855,600	23,697,027	51,168,984	23,153,557
Total	**51,654,602**	**59,934,408**	**119,826,392**	**63,528,390**
FTE	185.32	204.25	204.25	207.50

Program Description

The Facilities Division provides services related to facilities management, lease negotiation and supervision, project management, space planning and parking management, building operations and maintenance, and landscape maintenance for agencies occupying state-owned space. Major acquisition, construction, capital improvement, and maintenance projects are planned and managed by this Division.

Revenue Sources and Relationships

The Division is funded from a variety of sources but its two major sources are the uniform rent assessed on all tenant agencies and parking fees. The uniform rent rate for office space in 2003-05 is $1.30 per square foot, an increase of $0.22 per square foot over the 2001-03 rate. Uniform rent includes a depreciation component that is deposited in a Capital Projects Account, the balances of which are used for major rehabilitation of building space, as conditions require. Newly constructed office space will pay rent at $0.10 per square foot more than other uniform rent buildings in order to provide funds to pay debt service. The Division also receives $1.7 million from assessments of state agencies on the Capitol Mall for landscaping, debt service, and general facilities coordination. Other revenue is generated from service agreements to perform maintenance and janitorial services for office buildings owned by other state agencies, managing specialized non-office facilities, and a number of other facilities-related services.

Budget Environment

The Division owns or manages about 2.8 million square feet of mostly office space. The Division attempts to keep office facilities adequately maintained to prolong their useful lives and keep rental rates at a reasonable level. Demand for new or improved facilities has a direct impact on Division activities. The Division exhausted the balance in the Rent Stabilization Fund during the current biennium. This was a fund established by the Legislature to help defray facilities costs. Additionally, increased utility and security costs contribute to the increased uniform rent.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. It reflects internal reallocation of funding to increase part-time positions to full-time (a net increase of 4.25 FTE). It also eliminates three positions (3.0 FTE) as a result of budget reductions made during special sessions. The budget also adds two positions (2.0 FTE): one to coordinate the sale of state surplus real property, and one to assist agencies in managing major construction and capital improvement projects.

DAS – Risk Management Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,133	9,900	3,456	0
Other Funds	12,365,436	13,568,032	14,732,792	16,387,158

Nonlimited	35,880,153	44,264,000	44,264,000	45,813,855
Total	**48,252,722**	**57,841,932**	**59,000,248**	**62,201,013**
FTE	22.33	22.00	22.00	21.00

Program Description

The Risk Management Division purchases insurance for the state, and also is responsible for the management of the state's Self-Insurance Fund in order to maintain adequate balances for known and projected losses and to purchase excess coverage for the state. The Division investigates and resolves claims against the state and its employees. Risk Management also devises strategies that encourage agencies to minimize loss-related costs.

Revenue Sources and Relationships

The revenue source for the Division's operating expenditures is the Insurance Fund. State agencies pay into the Insurance Fund through an assessment ($75.7 million) based on a share of forecast statewide claims costs. Statewide needs are developed from independent actuarial forecasts for workers' compensation, property, and liability costs and estimated legal costs. Assessments are significantly higher than for the 2001-03 biennium because the Division used carryover fund balance in the Insurance Fund to support 2001-03 needs; $26.5 million was transferred out of the fund into the General Fund July 1, 2001; and Workers' Compensation surplus funds were depleted in the biennium. Other Funds also are provided from investment income earned on the Insurance Fund. More than 70% of the Division's budget, established to purchase insurance and pay claims from the Insurance Fund, is Nonlimited. The General Fund was provided in prior biennia to pay for liability insurance for retired dentists who provide volunteer dental care to the needy.

Budget Environment

The amount and types of property owned, the number of employees and their work, and the types of programs agencies have all contribute to the need for risk management services and products, principally insurance. How well agencies manage their risk elements directly impacts their risk management costs. The Division also tries to avoid litigation costs by attempting to resolve claims against state officers, employees, and agents accurately and fairly.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. It also eliminates one Dispute Resolution Cluster Coordinator position (1.0 FTE) that previously was funded in part with moneys transferred from the Oregon Dispute Resolution Commission.

DAS – Operations Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	8,119,417	10,640,250	10,811,817	12,315,101
FTE	56.24	71.58	71.58	70.50

Program Description

As part of a reorganization begun during the 1999-01 biennium, a significant number of positions previously moved from the various operating divisions into the Director's Office have now been transferred into a newly created Operations Division. The Operations Division is expected to improve the efficiency and effectiveness of all departmental operations by providing core services that are best managed centrally. All division administrators report to the Director of Operations. Included in the Operations Division are the following units:

- ***Personnel/Training Office*** is responsible for departmental human resource issues.
- ***Office of Business Administration*** is responsible for departmental budgeting, payroll, purchasing, and accounting.
- ***Office of Information Technology*** is responsible for departmental computer support and information technology management.

Revenue Sources and Relationships

The Division's revenue comes from service charges to the Department's various divisions ($12.2 million).

Budget Environment

The Operations Division is purely a support office within an administrative agency. Its budget is based upon the amount of support needed within the Department.

Governor's Budget

The Governor's budget restores one-time reductions taken during special sessions. It includes increases for expected inflation and additional personnel related expenses. The change in FTE reflects transfers of positions within the Department as part of its internal reorganization.

DAS – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	4,194,455	3,320,940	3,320,940	3,540,000
FTE	0.00	0.00	0.00	0.00

Program Description

The Capital Improvement Program, developed to complement the Major Construction/Acquisition Program, provides for remodeling and renovation projects that cost less than $500,000.

Revenue Sources and Relationships

Capital improvement activities are funded out of the Capital Projects Account, the Department's depreciation reserve fund, and are in addition to construction expenditures financed from the sale of certificates of participation.

Governor's Budget

The Governor's budget anticipates funding 15 different capital improvement projects ranging in cost from $27,000 to $308,000. It includes $465,000 for permanent energy saving improvements in buildings where temporary energy saving measures have been installed. It also includes $500,000 for preparation of space for occupancy where unanticipated moves have occurred in state facilities.

DAS – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	28,419,642	11,644,780	24,494,780	50,292,001
Nonlimited	306,378	500,000	500,000	500,000
Nonlimited Debt Service	883,020			
Total	**29,609,040**	**12,144,780**	**24,994,780**	**50,792,001**
FTE	0.71	0.00	0.00	0.00

Program Description

The Capital Construction Program includes major remodeling, renovation, and new construction or acquisition projects over $500,000. In 1997, the Legislative Assembly approved significant changes in the state's approach to major construction and deferred maintenance. The legislation establishes an advisory committee to provide guidance on agencies' efforts to properly maintain and protect their investments in capital assets, and it mandates state agencies to prepare four-year capital construction budgets.

Revenue Sources and Relationships

Other Funds for capital construction come from the depreciation component of uniform rent and service agreements ($8.3 million), and from the issuance of certificates of participation (COPs) ($42 million). The $500,000 Nonlimited Other Funds relate to issuance costs for COPs.

Governor's Budget

The Governor's budget includes funding for 12 specific projects, some of which are second phase of projects authorized and begun in the prior biennium. The two largest projects are a Department of Environmental Quality and Health Division laboratory ($32 million) and renovation of the Justice Building ($11.2 million). It also includes a $1 placeholder for future space management/acquisition expenditures.

DAS – Community Development Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	481,058	2,066,617	1,900,770	1,694,505
Other Funds	545,828	0	85,000	0
Total	**1,026,886**	**2,066,617**	**1,985,770**	**1,694,505**
FTE	7.00	8.00	8.00	7.00

Program Description

During the 1997-99 biennium, the Legislative Assembly approved $400,000 seed money for the Community Development Office (CDO). Its function is to facilitate integrated and coordinated services among state agencies that deal with community development issues. The Departments of Transportation, Economic Development, Housing and Community Services, Land Conservation and Development, and Environmental Quality loaned the CDO senior staff persons who function as policy advisors in their areas of expertise. The mission of the Community Development Office is to collaboratively bring together state agency programs, local government officials, and representatives from citizen and business resources.

Revenue Sources and Relationships

Prior to 2001, the Office received Other Funds that came from Federal Funds originally received by the Department of Transportation and transferred as Other Funds to the Community Development Office. That revenue source was not available and the Office was funded with General Fund for the 2001-03 biennium.

Budget Environment

Funding for the Office was eliminated by the Legislature during the fifth special session. However, the previous Governor restored the funding by using his line item veto authority.

Governor's Budget

The Governor's budget restores one-time reductions made during special sessions and includes increases for expected inflation and additional personnel related expenses (exclusive of increases for salary range 38 and above). It continues permanent budget reductions imposed by the fifth special session in HB 5100 (including 1.0 FTE) and suspension of a budgeted distribution to the Oregon Dispute Resolution Commission.

DAS – Oregon Progress Board

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	704,470	392,731	0
Other Funds	0	480,673	480,673	0
Total	**0**	**1,185,143**	**873,404**	**0**
FTE	0.00	3.00	0.00	3.00

Program Description

The Oregon Progress Board previously was included in the budget of the Economic and Community Development Department. The Oregon Progress Board consists of nine members appointed by the Governor. Functions include evaluating Oregon's progress in meeting the goals established in the Oregon Benchmarks; updating the benchmark measures; defining new measures; and addressing strategies for meeting the benchmark goals. The 1997 Legislative Assembly re-authorized the Progress Board as a statutory program.

Revenue Sources and Relationships

The Board has been funded by a combination of General Fund and Other Funds. The Board also receives Other Funds revenue from communities for the development of Community Benchmarks, and partners with other state agencies to fund statewide reports on the benchmarks.

Budget Environment

The primary workload of the Progress Board has been the updating of the benchmarks and expanded work with communities. The Board has been directed by the Legislative Assembly to include state agencies benchmarks and progress in meeting those benchmarks as part of the state budget process. During the special sessions, the balance of funding for the Board was eliminated. The Emergency Board provided some additional funding to allow it to complete certain undertakings, but did not provide funding that countered the legislative decision to cease support for the Board.

Governor's Budget

The Governor's budget provides no funding for the Oregon Progress Board, but does include three unfunded positions (3.0 FTE).

DAS – Office for Oregon Health Policy and Research

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,337,159	1,618,386	1,532,260	1,554,253
Other Funds	1,852,972	1,495,083	4,533,234	1,615,291
Federal Funds	473,407	564,653	765,168	0
Total	**3,663,538**	**3,678,122**	**6,830,662**	**3,169,544**
FTE	18.87	14.92	18.82	14.50

Program Description

The 1993 Legislative Assembly established the Office of the Oregon Health Plan Administrator to oversee implementation of the Oregon Health Plan. In 1995, the Legislative Assembly combined it with the Office of Health Policy and its responsibility for the collection of data on hospital discharges, revenues, and changes in rates with the Office of the Oregon Health Plan Administrator to assist with health planning. Administration of the Oregon Health Council, the Oregon Health Services Commission, and the Oregon Health Resources Commission were also transferred to this Office. Primary responsibilities of these commissions are policy advice on health care issues, establishment and maintenance of the prioritized list of health services, and the introduction, diffusion, and utilization of medical technology, respectively. The Office is the only agency with statewide Oregon Health Plan coordinating responsibilities. In 1997, the name of the Office was changed to the Office for Oregon Health Plan Policy and Research and changed again in 2001 to the Office for Health Policy Research.

Revenue Sources and Relationships

In addition to its General Fund support, the Office has contracts with Department of Human Services agencies that provide Other Funds revenue. The Federal Funds came from a federal grant to conduct research on universal health coverage. The grant ends in the 2001-03 biennium. The Office also pursues other private grant funding to support its research activities.

Budget Environment

A significant amount of grant funds and federal funds was available and used during the 2001-03 biennium that are not expected to be available in the 2003-05 biennium. Temporary budget reductions were made during the special sessions and the Office accommodated the reductions through temporary reductions of services and supplies and additional reliance on federal and grant funds. Legislative review of the Oregon Health Plan could impact the nature and operation of the Office.

Governor's Budget

The Governor's budget includes increases for expected inflation and additional personnel related expenses (exclusive of increases for salary range 38 and above). It continues budget reductions imposed by the fifth special session in Section 2 of HB 5100.

DAS – Arrest and Return

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	1,290,482	994,047	962,278
Other Funds	0	30,170	30,170	31,226
Total	**0**	**1,320,652**	**1,024,217**	**993,504**
FTE	0.00	1.00	1.00	1.00

Program Description

Extradition is a gubernatorial function and the Arrest and Return Program sends one officer to return Class A and B felons nationwide. The Program is placed budgetarily in the Department, although it is overseen by the Governor's Office.

Governor's Budget

The Governor's budget restores one-time reductions made during special sessions and includes increases for expected inflation and additional personnel related expenses. It continues permanent budget reductions imposed by the fifth special session in HB 5100.

DAS – Miscellaneous Distributions

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	13,148,143	13,687,339	13,687,339	14,763,577
FTE	0.00	0.00	0.00	0.00

Program Description

This program accounts for the Mass Transit Assessment collected from state agencies based on their number of employees. The assessment is then distributed to certain mass transit districts and transportation districts. The distribution is to reimburse the districts for the benefits they provide to the state government.

Governor's Budget

The Governor's budget reflects anticipated Mass Transit Assessment collections and distribution based on budgeted employment numbers.

DAS – Special Payments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	615,287	1,890,000	1,206,523	878,336
Lottery Funds	0	534,003	381,342	1,622,874
Other Funds	0	6,198,954	6,198,954	0
Total	**615,287**	**8,622,957**	**7,786,819**	**2,501,210**
FTE	0.00	0.00	0.00	0.00

Program Description

This is a catch-all category that reports payments for services not directly related to the mission of the Department of Administrative Services.

Governor's Budget

The Governor's budget includes $878,336 General Fund payment to the Children's Trust Fund and $1,622,874 of Lottery Funds for debt service on Lottery Bonds issued for Oregon Public Broadcasting. The Governor's budget also includes $131 million for special payments to Oregon Health Sciences University. These amounts are not included here, but are included in the budget discussion for the Oregon Health Sciences University.

Commission on Asian Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	131,384	141,508	137,835	166,867
Other Funds	17,130	30,586	30,586	27,367
Total	**148,514**	**172,094**	**168,421**	**194,234**
FTE	1.00	1.00	1.00	1.00

Program Description

The Commission on Asian Affairs was established by statute in 1995 to promote trade and tourism between Oregon and Pacific Rim countries, to identify and examine the needs of Asian Americans, and to encourage the economic development of the Asian American community. In 1999, the Legislature narrowed the Commission's mission to promoting equality for Asian Americans in Oregon, and to assessing the issues and needs confronting Asian Americans. The duties relating to promoting trade and tourism were repealed. With these changes, the Commission on Asian Affairs' mission now parallels those of the other advocacy commissions (Commission on Black Affairs, Commission on Hispanic Affairs, and Commission for Women).

Revenue Sources and Relationships

The Commission has no dedicated source of Other Funds. An Other Funds expenditure limitation is provided to encourage grants, donations, and other non-state support to fund Commission activities. The Commission is authorized to receive donations and grants, and to conduct revenue-generating activities to finance its expenses. These revenues were the sole source of Commission support in 1995-97, but since then the agency's expenses have been General Fund supported. The Commission only raised $3,360 in donations during the entire 1997-99 biennium. In the 1999-01 biennium, this increased to $22,160, but for the 2001-03 biennium donations are projected to total $11,020. The donations that are raised are generally to support the agency sponsorship of Asian American Heritage Month activities.

Budget Environment

The agency's expenses are almost exclusively supported by the General Fund. The budget approved during the regular 2001 legislative session provided sufficient General Fund to allow the Commission to operate at its then current service level. The bulk of the commission budget is used to pay the salary and benefits of the agency's one employee, and to pay state government service charges. The Legislature has for several biennia worked to provide incentives for the Commission to raise private donations and grants. In 2001, the Legislature directed the Department of Administrative Services to unschedule $10,000 of the General Fund appropriation, with the funds to be rescheduled only as a dollar-for-dollar match to donation, grant, or sales income. The Commission has only raised $6,250 in donations to date, however, meaning that almost $4,000 of General Fund remains unavailable to it. If the Commission raises $11,020 in donations as projected this biennium, all of the General Fund will eventually be rescheduled. Most of these donations are provided to cover the costs of Asian American Heritage Month activities. The Commission in turn sponsors a one-day outdoor festival in downtown Portland. Some of the donations support general agency operations, however, and therefore the decline in donations will impact Commission functions beyond the festival.

The viability of the Commission is being challenged by the state's General Fund revenue shortfall. During the 2001-03 legislative interim, the Legislature reduced General Fund support (including underfunding of salary adjustment costs) by $9,509 (or 6.5%) as part of its overall effort to rebalance the state budget. The Governor further reduced this appropriation by $1,665 (or 1.1%) through an allotment reduction to prevent a deficit. This leaves a total General Fund reduction of 7.6%. At this level of reduction, the Commission will be unable to retain its Executive Director on a full-time basis for the entire biennium.

Governor's Budget

The Governor's budget supports ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction are restored. General Fund support is increased from the prior biennium level to finance compensation cost increases for the Executive Director, and inflation in services and supply costs and state government service charges. The Other Funds expenditure limitation is reduced by $4,300 to bring it more into alignment with projected donation revenue.

Commission on Black Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	121,997	141,508	137,915	160,194
Other Funds	29,321	20,054	20,054	21,449
Total	**151,318**	**161,562**	**157,969**	**181,643**
FTE	1.00	1.00	1.00	1.00

Program Description

The Commission on Black Affairs was established by executive order in 1980 and by statute in 1983 to work for the "implementation and establishment of economic, social, legal and political equality for Blacks in Oregon." The Commission is comprised of 11 members, two of whom are legislators. Duties of the Commission are to:

- monitor existing programs and legislation designed to meet the needs of the African American population;
- identify and research problem areas and issues affecting the African American community and recommend actions to the Governor and Legislative Assembly;
- serve as a liaison between the African American community and government entities; and
- encourage African American representation on state boards and commissions.

Revenue Sources and Relationships

The Commission has no dedicated source of Other Funds. An Other Funds expenditure limitation is provided to encourage grants, donations, and other non-state support to fund Commission activities. During the 1999-01 biennium, the Commission received approximately $32,000 to sponsor an exhibit on African Americans in the military. Otherwise, though, the Commission has not been successful raising donations. Only $200 in donations have been collected during the 2001-03 biennium to date.

Budget Environment

The agency's expenses are almost exclusively supported by the General Fund. The budget approved during the regular 2001 legislative session provided sufficient General Fund to allow the Commission to operate at its then current service level. The bulk of the commission budget is used to pay the salary and benefits of the agency's one employee, and to pay state government service charges. The Legislature has for several biennia worked to provide incentives for the Commission to raise private donations and grants. In 2001, the Legislature directed the Department of Administrative Services to unschedule $10,000 of the General Fund appropriation, with the funds to be rescheduled only as a dollar-for-dollar match to donation, grant, or sales income. The Commission has only raised $200 in donations, however, meaning that almost all of this $10,000 of General Fund remains unavailable to it. This situation has placed the Commission's ability to retain a full-time executive director at risk. The Commission is now seeking additional donations to finance its operations.

The viability of the Commission is further challenged by the state's General Fund revenue shortfall. During the 2001-03 legislative interim, the Legislature reduced General Fund support (including underfunding of salary adjustment costs) by $9,541 (or 6.5%) as part of its overall effort to rebalance the state budget. The Governor further reduced this appropriation by $1,660 (or 1.1%) through an allotment reduction to prevent a deficit. This leaves a total General Fund reduction of 7.6%. At this level of reduction, the Commission will be unable to retain its Executive Director on a full-time basis for the entire biennium

Governor's Budget

The Governor's budget supports ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction are restored. General Fund support is increased from the prior biennium level to finance compensation cost increases for the Executive Director, and inflation in services and supply costs and state government service charges.

Capitol Planning Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	225,701	265,877	276,891	326,439
Total	**225,701**	**265,877**	**276,891**	**326,439**
FTE	1.63	1.63	1.63	1.83

Program Description

The Capitol Planning Commission was created to establish and implement a long-range development plan for state-owned properties in Marion and Polk Counties. The Commission reviews state agency capital development and facility proposals and coordinates planning to determine compatibility with area plans, local planning guidelines, and local interests. The Commission has developed a long-term master plan for the Capitol Mall area. The Commission consists of nine members; three are appointed by the Governor, and six are "ex officio" members. An executive director (0.8 FTE) and a staff support position (0.83 FTE) provide administrative support for the Commission.

Revenue Sources and Relationships

Funding is provided through an assessment against state agencies based on Full Time Equivalent (FTE) positions which are not federally funded. The basis for 2003-05 is 31,877 FTE as of November 1, 2001. The assessment is collected by the Department of Administrative Services as part of the state government service charge. As such, approximately 30% of the Commission's Other Funds revenue is derived from General Fund agencies. The 2003-05 assessment rate, on average, is 11% higher than in 2001-03, and will provide $304,031 in revenue.

Budget Environment

The Commission's funding supports its continuing role in comprehensive development planning and coordination in Marion and Polk Counties. The Commission believes its activities support community development, environment, and quality of life in the area. In 2003-05, Commission work is expected to include review and approval of building improvements and renovation, long-range planning, and the updating and completion of area plans. The Commission's budget is unaffected directly by the state's revenue shortfall, because it is based on assessments on all state agencies.

Governor's Budget

The Commission's budget is 17.8% higher than the 2001-03 legislatively approved budget, driven in part by a $27,653 package which would restore the Executive Director's position to its 1991-93 level of 1.0 FTE. The budget also contains standard adjustments for state government services charges and inflation on personal services, and services and supplies.

The Governor's budget phases out only $4,200 of a $16,846 technology modernization package from 2001-03 for development and maintenance of an agency website and linkage to the state's local area network (LAN). This phase-out relates to the initial development of the website. Because the Commission relocated to the State Capitol Building in 2001, the portion of the package associated with linking to the state's LAN was not used. Therefore, the amount budgeted for website maintenance exceeds anticipated needs in 2003-05. The budget would also provide an ending balance equivalent to approximately six months of operations.

Employment Relations Board (ERB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,279,129	1,339,602	1,295,937	1,400,508
Other Funds	1,290,349	1,637,166	1,703,446	1,639,107
Total	**2,569,478**	**2,976,768**	**2,999,383**	**3,039,615**
FTE	17.73	16.00	16.00	14.00

The Employment Relations Board is a three-member quasi-judicial board charged with resolving labor disputes in state agencies, local government agencies, and private employers not subject to the National Labor Relations Board jurisdiction.

ERB – State Government Labor Relations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,063,200	1,229,524	1,278,766	1,305,258
Total	**1,063,200**	**1,229,524**	**1,278,766**	**1,305,258**
FTE	7.12	7.12	7.12	6.12

Program Description

This program provides labor relation adjudication and dispute resolution, determines bargaining units, and conducts representation elections for state government.

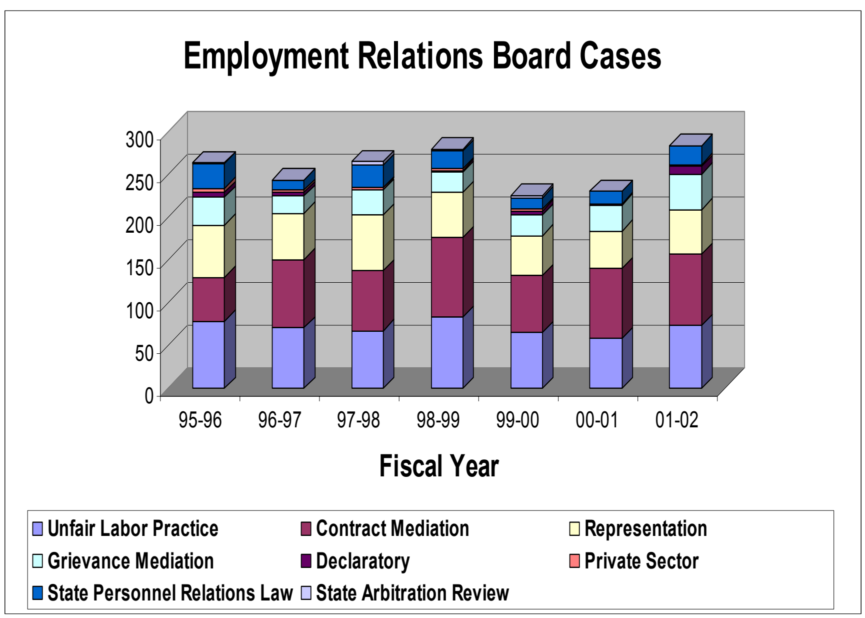
Revenue Sources and Relationships

The State Government Labor Relations program is financed through a monthly assessment on covered positions in state agencies. The 2003-05 projected revenues of $1,310,520 are based on an assessment rate of $1.63 per employee per month and 33,500 covered state employees. This reflects an increased assessment rate of $0.28 per employee per month over the 2001-03 level. Revenues from the assessment would be reduced if statewide budget balancing efforts reduce the number of employees in state government. The program's estimated ending balance is equal to 3.4 months of operating expenditures or 14% of the estimated 2003-05 revenues.

Budget Environment

The statewide assessment is covering an increasing portion of the agency's total budget. During the 1993-95 biennium, the state assessment was approximately 33% of the agency's total expenditures versus 43% of the expenditures included in the 2003-05 Governor's budget.

While the agency does not track workload or the number of cases by the type of government served (state or local), based on prior years' annual reports and aggregate case data, an estimated one-third of the agency's total cases are associated with state government. The agency asserts that cases are not a good measurement of workload. Rather state government cases can be more complex, and require a higher number of hours and costs to resolve the conflict. However, the agency has not developed a workload measure to quantify the additional hours or costs associated with state government cases.



Although this program's budget was not reduced by special session actions during the 2001-03 interim, the agency did delay filling vacant positions in order to use Other Funds savings to backfill General Fund reductions in the Local Government Program.

Governor's Budget

The Governor's budget incorporates a 21% increase to the monthly assessment rate and maintains an ending balance equivalent of three to four months of operating expenditures. The recommended expenditures modify the current service level budget by making permanent the agency's 2001-03 management actions to address the special session reductions. The reductions total $77,779 in 2003-05 and include eliminating one permanent position (1.0 FTE) which provided transcription services that will now be contracted out, eliminating funding for employee training, and reducing office expenses.

ERB – Local Government Labor Relations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,279,129	1,339,602	1,295,937	1,400,508
Other Funds	227,149	407,642	424,680	333,849
Total	**1,506,278**	**1,747,244**	**1,720,617**	**1,734,357**
FTE	10.61	8.88	8.88	7.88

Program Description

This program provides resolution of labor relations disputes for local government and covered private employers and labor organizations through use of mediation and adjudication, determines bargaining units, and conducts representation elections.

Revenue Sources and Relationships

There are four primary sources of revenue for this program in addition to the General Fund: contract mediation fees ($1,000); grievance and Unfair Labor Practice (ULP) fees ($500); interest based bargaining training fees (up to $2,500); and filing fees for ULP complaints ($250) and answers ($100). During 2003-05, the Board anticipates collecting fees of $205,000 for mediation services and collecting another $66,000 from filing fees and the sale of transcripts and tapes. This would reflect a 27% increase over the 1999-2001 collected revenues.

Budget Environment

Since 1991-93, General Fund support for this program has been reduced by 31%; thus increasing the dependence on fees for service. The shift to a fee supported budget began in 1993 and was intended to cover the costs associated with one mediator position. Fees for service have not increased since 1995-97, but revenues have never materialized at the original estimated level which has led to staff reductions including a reduction of one position (1.0 FTE) in 2003-05.

This program's 2001-03 budget was reduced by $75,435 General Fund based on special session actions during the interim. The agency received an additional $31,770 General Fund for partial funding of employee salary and benefit increases, $11,050 less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, and reduce training and office expenses.

Governor's Budget

The Governor's budget restores $198,950 General Fund and one position (1.0 FTE) assumed to be eliminated when the income tax surcharge measure failed, but reduces funding for facilities rent, employee training, and office expenses by $53,404 General Fund and $2,132 Other Funds.

Government Standards and Practices Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	762,633	641,230	889,046	613,772
Other Funds	7,182	9,662	9,662	6,565
Total	**769,815**	**650,892**	**898,708**	**620,337**
FTE	4.00	4.00	4.00	3.00

Program Description

The Government Standards and Practices Commission (formerly called the Oregon Government Ethics Commission) was established by referendum in 1974. The Commission's mission is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and public meeting laws. The Commission is required by law to meet specific timelines for the conduct of investigations. The Commission also educates public officials and lobbyists on the provisions of the Government Standards and Practices Law, the Public Meetings Law, and lobbying regulations. Client groups of the Commission include: all public officials who serve the state or any of its political subdivisions, whether paid or unpaid; registered lobbyists and their employers; and any citizen who requests a review of the conduct of a public official or lobbyist.

Revenue Sources and Relationships

The Commission is funded almost entirely by General Fund. The Other Funds portion, a little over 1%, is from reimbursements for the cost of printing and distributing Commission documents. Actual Other Funds revenue has declined with the increased availability of Commission documents on the Internet. Estimated for 2001-03 at approximately $10,000, actual receipts were closer to $6,600. The Commission also collects revenues from fines and forfeitures. These are not included in the agency budget, however, as these revenues are transferred to the General Fund and are not available for Commission operations. The Commission estimates it will collect $60,000 in fines and forfeitures in 2003-05.

Budget Environment

The total number of complaints filed with the Commission remains relatively constant, with complaint activity spiking slightly upward in election years. The Commission's executive director continues the education component of Commission responsibility with training presentations, averaging 54 per year since 1998.

A major variable in the Commission's budget is the level of Attorney General charges. These can vary greatly depending upon whether the Commission faces any contested cases. Generally, the legislatively adopted budget makes no allowance for exceptional contested case costs. During the 2001-03 biennium the agency had a series of high cost cases in court, some of which resulted in the award of attorney fees to prevailing parties. From close of session through the November 2002 meeting of the Emergency Board, the Commission received more than $220,000 in supplemental General Fund appropriations for extraordinary legal costs incurred in the 2001-03 biennium.

The Commission experienced a series of budget reductions after its 2001-03 budget was adopted May, 2001. In July of 2001, the Legislature disappropriated $31,500 from the 2001-03 adopted budget to pay for extraordinary Attorney General charges incurred by the agency in the 1999-01 biennium. Action in the 2002 second special session reduced the budget by $12,828. The third special session further reduced the budget by $12,800, and underfunded the second-year salary increase appropriation by $6,526. 2002 fifth special session action adopted an across-the-board reduction of $29,600. To manage these reductions, staff investigators were reduced to half-time status effective November 1, 2002.

Governor's Budget

The Governor's budget reflects a decrease of $30,555 or 4.7% from 2001-03 legislatively adopted expenditures. However, compared to legislatively approved expenditures of $678,390, excluding extraordinary Attorney General and legal costs, the decrease is 8.6%. The decrease is due chiefly to two elements. One is a phase-out of one-time expenditures of $155,500 for prevailing party attorney fees and extraordinary Attorney General costs.

The other element is the roll-up of special session reductions for a total of $317,332 in Packages 081 and 082.

Under these reductions, investigator staffing would be eliminated, and the Executive Support position would be reduced to 0.75 FTE. Package 092 would restore $180,364 in order to maintain staffing at the level reached in November, with the result that the Commission would have three positions, with 3 FTE. Other essential adjustments increase the amounts for state government service charges, mass transit tax, and costs of inflation. Acknowledging the continuing decline in Other Funds revenue, that category is reduced by $4,295, as well as use of that revenue for Attorney General expenditures. As in previous biennia, the budget does not include funding for extraordinary legal costs resulting from contested cases.

Office of the Governor – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	8,641,519	9,256,178	7,985,779	7,373,746
Other Funds	1,103,326	1,199,682	1,239,331	971,182
Total	**9,744,845**	**10,455,860**	**9,225,110**	**8,344,928**
FTE	47.05	46.00	46.00	36.50

Program Description

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 a State Affirmative Action Officer, a Citizen's Representative Office, a Minority and Women Business Advocate, and provides clerical support for appointing members to boards and commissions. The Office also includes two policy offices: the Governor's Natural Resource Office and the Office of Education and Workforce Policy.

Revenue Sources and Relationships

The Office of the Governor is supported mainly by the General Fund. Other Funds consist of revenue transfers from the Departments of Administrative Services and Consumer and Business Services to finance the Affirmative Action and Minority and Women Owned Business programs. The Affirmative Action Program is funded from a Personnel Division assessment estimated at $463,000 for the biennium. The Minority Business Enterprises program is funded from assessments on agencies that have capital construction funded in their budgets and also receives funds from the sale of subscriptions for directories of certified firms. Revenues from these sources are estimated at $424,000.

Budget Environment

The budget is driven by the number of staff and programs operated out of the Governor's Office. No new programs have been placed in the Governor's Office in recent biennia. The transfer of budgetary accountability for the two policy offices was done to reflect actual programmatic responsibility and did not add new programs. The budget of the Office of the Governor was reduced by $1,432,974 based on special session actions during the interim. Included in this reduction was $418,000 for support for the State Board of Education and the Post-Secondary Education Opportunity Commission. The budget was reduced also for suspension of the second year salary increases for all elected officials. The Office received an additional $202,224 General Fund for partial funding of employee salary and benefit increases. One position left vacant to help address the reductions was eliminated. To manage the balance of the reductions, the Office left other positions vacant and reduced services and supplies expenditures.

Governor's Budget

The Governor's budget reflects permanent reductions made during the special sessions. It does not reflect any changes that the newly-elected Governor may wish to make to his office.

Commission on Hispanic Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	128,153	70,708	134,785	146,892
Other Funds	93,150	42,541	78,541	81,690
Total	**221,303**	**113,249**	**213,326**	**228,582**
FTE	1.50	0.50	1.00	1.00

Program Description

The Commission on Hispanic Affairs was established by executive order in 1980 and by statute in 1983 to work for the "implementation and establishment of economic, social, legal and political equality for Hispanics in Oregon." The Commission is comprised of 11 members, two of whom are legislators. Commission responsibilities are to:

- monitor existing programs and legislation designed to meet the needs of the Hispanic population;
- identify and research problem areas and issues affecting the Hispanic community and recommend actions to the Governor and Legislative Assembly;
- serve as a liaison between the Hispanic community and government entities; and
- encourage Hispanic representation on state boards and commissions.

Revenue Sources and Relationships

The Commission has no dedicated source of Other Funds, and generates Other Funds revenue from donations and grants. These funds help the Commission carry out its mandated functions and support the annual Latino Youth Summit. The Commission had operated a program offering Spanish language instruction to State employees, which brought the agency most of its Other Funds. This program was discontinued during the 2001-03 biennium. Principal fund raising efforts now support a scholarship program and the Latino Youth Summit.

Budget Environment

The agency's expenses are almost exclusively supported by the General Fund. The budget approved during the regular 2001 legislative session provided sufficient General Fund to allow the Commission to operate at its then current service level. The bulk of the Commission budget is used to pay the salary and benefits of the agency's one employee, and to pay state government service charges. The Legislature has for several biennia worked to provide incentives for the Commission to raise private donations and grants. In 2001, the Legislature directed the Department of Administrative Services to unschedule $10,000 of the General Fund appropriation, with the funds to be rescheduled only as a dollar-for-dollar match to donation, grant, or sales income. The Commission has raised sufficient donation income to reschedule all of this $10,000 of General Fund.

In the 2001 Session, the Legislature approved funding for the first year of the biennium only, and appropriated second-year funding to the Emergency Board. This was done because of an ongoing audit by the Secretary of State into financial irregularities at the Commission. The Emergency Board released the second-year funding to the Commission after the agency reported on how it had addressed the audit concerns.

The viability of the Commission is being challenged by the state's General Fund revenue shortfall. During the 2001-03 legislative interim, the Legislature reduced General Fund support (including underfunding of salary adjustment costs) by $8,299 (or 5.8%) as part of its overall effort to rebalance the state budget. The Governor further reduced this appropriation by $1,630 (or 1.1%) through an allotment reduction to prevent a deficit. This leaves a total General Fund reduction of 6.9%. At this level of reduction, the Commission will be unable to retain its Executive Director on a full-time basis for the entire biennium.

Governor's Budget

The Governor's budget supports ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction are restored. General Fund support is increased from the prior biennium level to finance compensation cost increases for the Executive Director, and inflation in services and supply costs and state government service charges.

Oregon State Library (OSL) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,125,068	3,191,312	3,127,377	3,279,864
Other Funds	4,748,557	5,102,149	5,102,149	5,669,289
Federal Funds	3,892,223	3,932,219	3,932,219	4,160,077
Total	**11,765,848**	**12,225,680**	**12,161,745**	**13,109,230**
FTE	44.38	44.38	44.38	45.38

The State Library engages in three broad functions: 1) to provide research services to state government; 2) to supply reading materials to blind and print-disabled Oregonians; and 3) to assist in improving the overall quality of library services throughout the state by consulting with local libraries, distributing federal Library Services Technology Act (LSTA) funds, and administering the Ready to Read Grant program for local libraries.

Revenue Sources and Relationships

Other Funds revenues are generated from an assessment on all state agencies, except the Department of Higher Education, for the portion of State Library expenditures that support state agencies. The assessment is based two-thirds on the state agency's percentage of full-time equivalent positions and one-third on the state agency's usage of library services. The State Library also receives Other Fund revenue from donations (primarily for the Talking Books and Braille Services program). Federal Fund resources come from a grant received from the Library Services and Technology Act (LSTA) and is used solely for Library Development Services. The grant requires a 52% match rate as well as a maintenance of effort based on the average of the last three years of non-federal library expenditures.

Budget Environment

Property tax limitation Measures 47 (1996) and 50 (1997) had a dramatic impact on Oregon public libraries. Beginning in early 1997, staff were laid off in many communities, service hours were cut, and book purchases were seriously curtailed. Many of these libraries have recovered since then, mostly through the passage of local option levies, although some libraries are still struggling. A significant number of Oregonians, about 13%, remain unserved or underserved by public libraries.

The agency's 2001-03 budget was reduced by $227,569 General Fund based on special session actions during the interim. The agency received $49,716 General Fund for partial funding of employee salary and benefit increases.

Governor's Budget

The Governor's recommended budget for the State Library is approximately $13 million total funds, a 7% increase over the 2001-03 legislatively approved budget.

OSL – Administrative Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	424,510	403,277	403,277	462,892
Other Funds	484,143	522,711	552,711	627,793
Total	**908,653**	**925,988**	**955,988**	**1,090,685**
FTE	5.63	5.63	5.63	5.63

Program Description

This program oversees the overall administration of the agency. Responsibilities include providing leadership, policy development and strategic planning, working with constituent groups, managing financial and personnel functions, and setting and assessing performance measures.

Budget Environment

The Library relies heavily on volunteer hours to achieve its mission. Since managing volunteer coordination is one of the functions of Administration, the Library uses the number of hours worked by volunteers as a performance measure for this program. The agency's efforts are affected by factors outside of its control, such as fluctuating availability and willingness of volunteers. Previously, the agency expected a decline in the number

of volunteer hours: from 32,450 in 1997-99 to a projected 31,300 for 1999-01. However, actual data for 1999-01 shows an increase to 34,995. The Library's goal for 2001-03 remains at 30,000 hours.

Governor's Budget

The Governor's recommended budget for Administrative Services was approximately $1 million total funds, a 14% increase over the 2001-03 legislatively approved level.

OSL – Library Development

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,689,562	1,675,601	1,611,775	1,438,185
Other Funds	23,425	50,756	50,756	52,590
Federal Funds	3,892,223	3,932,219	3,932,219	4,160,077
Total	**5,605,210**	**5,658,576**	**5,594,750**	**5,650,852**
FTE	4.75	4.75	4.75	4.75

Program Description

This program is responsible for assisting local libraries and improving the overall quality of library services in the state. Library Development Services assists approximately 1,600 public, academic, and school libraries. The program performs the following services:

- promotion of the establishment and consolidation of libraries;
- assistance to libraries in improving children's services, information technology, and fundraising;
- distribution of federal grants to local libraries;
- collection and distribution of statistics concerning Oregon libraries; and
- assistance to libraries to uphold the principles of intellectual freedom through the work of the Oregon Intellectual Freedom Clearinghouse.

Revenue Sources and Relationships

Federal Funds provide grants to local libraries to improve services. In the past, the majority of Federal Funds were obtained from the Library Services and Construction Act (LSCA) and Titles I, II, and III administered by the U.S. Department of Education. This funding was replaced with Library Services Technology Act (LSTA) funds from the newly formed Institute of Museum and Library Services. Under the LSTA's maintenance of effort requirements, states must maintain the average of expenditures in the past three years in state-funded programs relevant to the priorities of LSTA. Any reduction in state funding results in an identical percentage reduction in funding under the LSTA. Oregon is projected to receive a total of $4.2 million for 2003-05.

The Ready to Read program is supported totally by the General Fund. The 1999 Legislature authorized a 33% increase in program funding, from $0.75 to $1.00 per child. This provided a 1999-01 budget of $1.4 million for formula grants to over 100 local libraries. The 2001-03 budget eliminated inflation ($35,216) and based on revised population estimates as of September 2000 for children birth through age fourteen, the program was still funded at $1.00 per child. In 2001-03, the 2002 fifth special session pro-rata reductions reduced the program by an additional $112,628, resulting in a 2003-05 reduction of $214,047, or to $0.83 per child, per year. There is no loss of Federal Funds in 2003-05 as a result of federal Library Services and Technology Act (LSTA) match.

Budget Environment

Oregon libraries are doing more to reach out to children, their parents, and their care providers with library programs to make certain that more of Oregon's children have an opportunity to succeed in school.
The Library Development Services unit supports approximately 1,600 public, academic, and school libraries throughout Oregon.

Governor's Budget

The Governor's recommended budget for Library Development Services is approximately $5.7 million total funds, a 1% increase over the 2001-03 legislatively approved budget. The 2001-03, fifth special session pro-rata reductions reduced the General Fund by $112,628, resulting in a 2003-05 reduction of $214,047 General Fund. The budget also includes a fund shift for part of a position ($52,936) from General Fund to Federal funds. The General Fund that is freed up will be used to fully fund the Talking Book and Braille Services rent.

OSL – Talking Book and Braille Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,010,996	1,112,434	1,112,325	1,378,787
Other Funds	84,842	173,252	173,252	140,112
Total	**1,095,838**	**1,285,686**	**1,285,577**	**1,518,899**
FTE	10.75	10.75	10.75	10.75

Program Description

Talking Book and Braille Services (TBABS) provides a wide variety of reading materials in audio-recorded or Braille formats to serve Oregonians with limited vision or other disabilities that prevent them from using conventional books and other printed materials. TBABS is a partnership between the Library of Congress and the State Library. The books, tapes, recorders and postage are provided at no cost to Oregonians through the federal program. The State Library's responsibility is to provide storage, processing, inventory and maintenance of books, tapes and recorders.

Revenue Sources and Relationships

In 2001-03 General Fund covered 86% of the TBABS budget and the remaining 14% was funded through Other Funds, which primarily represent donations generated through a fund-raising program. The State Library reported $240,000 in donations for 1999-01, $303,000 estimated donations in 2001-03, and projects $303,000, for 2003-05 biennium.

Budget Environment

An estimated 47,000 people in Oregon have impaired vision or other disabilities that limit their ability to use standard printed materials. An estimated 8,000 (17.4%) of these use the TBABS program. Approximately 6,600 individuals are registered as users and over 500 registered institutions serve another 1,400 individuals. About 1,471 books and audio books are mailed daily to customers, with an equivalent number of items received each day. Incoming books/tapes must be inspected, rewound (2 to 3 tapes per book), and inventoried before being reshipped. The total number of individual volumes and tapes handled per day is over 6,000. Full-time staff (10.75 FTE) and volunteers process and distribute materials, with volunteers accounting for approximately one-third of total hours worked. The Library also works with local public libraries to assist them in meeting the needs of the target population. The number of TBABS users is expected to continue to grow in the 2003-05 biennium.

Over time the Talking Book and Braille Services program has expanded, requiring additional storage space but the agency has not received additional General Fund to pay the rent on the space. In 2001, the agency requested additional General Funds for rent but subsequently was not included in the 2001-03 Governor's Recommended Budget. The recommended budget provides the General Fund resources to fully fund the rent which results from a fund shift. The resources come from the Library Development program where one position has been partially funded with Federal Funds and a shift in those funds will provide the additional General Fund needed.

Governor's Budget

The Governor's recommended budget of $1,518,899 is approximately an 18% increase over the 2001-03 legislatively approved level. The budget includes a package to fully fund rent with General Funds rather than Other Funds, at a cost of $52,936.

OSL – Government Research and Electronic Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended

Other Funds	4,156,147	4,325,430	4,325,430	4,848,794
Total	**4,156,147**	**4,325,430**	**4,325,430**	**4,848,794**
FTE	23.25	23.25	23.25	23.25

Program Description

Government Research and Electronic Services (GRES) provides research assistance and electronic and printed resource services to state government. In addition, the general public obtains special information concerning state government publications, Oregon history, and genealogy through a partnership with the Willamette Valley Genealogical Society.

GRES develops and maintains the State Library collection and SmartOR.gov, the Library's on-line information service; provides technical support and maintenance for the State Library's other automated systems; catalogs, inventories, circulates, and retrieves all library materials; and coordinates a database of periodical holdings of Oregon libraries.

Revenue Sources and Relationships

GRES is now fully financed by an assessment on all state agencies, with the exception of the Oregon University System, for their library use.

Budget Environment

During the first twelve months of 2001-03, this program distributed approximately 17,000 state government publications to designated document depository libraries throughout Oregon. Due to legislation passed in 1993 requiring fewer copies of state publications to be deposited with the Library and due to increased interest in the Internet, there has been about a 15% decrease in acquiring and distributing hard copies of state documents during 2001-03 biennium compared to 1999-01.

Over this same time period, there has been an increased demand for information through the Library's phone-in program (CALLsmart), in-person and e-mail requests, and its Intranet service (SmartORgov). In 2001-02, the Library responded to almost 13,000 requests for information from state agencies and served over 33,000 users of the LISTsmart service. SmartOR.gov allows state agencies to access digital information from numerous sources including; electronic newspapers and magazines, databases, library catalogs, and websites. There are approximately 14% of state employees who are registered users of SmartOR.gov.

Governor's Budget

The Governor's recommended budget of $4,848,794 is an increase of 12% over the 2001-03 legislatively approved level. The budget includes an increase of $124,400 to fund the continuation of the Oregon.gov Search Engine. The increase would provide $115,040 Other Funds for a full-time position to staff the project and $9,360 Other Funds for services and supplies.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	71,305,870	77,148,773	76,483,517	81,308,000
Nonlimited	0	2,087,000	2,087,000	2,160,045
Total	**71,305,870**	**79,235,773**	**78,570,517**	**83,468,045**
FTE	215.02	217.02	217.02	200.67

Program Description

The Oregon Liquor Control Commission (OLCC) regulates all individuals and businesses that manufacture, sell, import, export, or serve alcoholic beverages; educates and trains liquor licensees, the public and other groups; investigates and takes compliance action when necessary against those who violate liquor laws. The five-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 generated from liquor sales (95%), privilege taxes on malt beverages (Beer) and wines (4%), license fees and fines, server education fees, and miscellaneous income (1%). As required by law, 50% of the privilege tax revenues ($12.7 million for 2003-05) are first allocated for payments to the Mental Health Alcoholism and Drug Services Account, and an additional $366,000 is transferred to the Wine Advisory Board. The remaining privilege tax revenues, along with all other revenues (primarily from liquor sales), are first used to finance Commission operations (including liquor purchases). The excess balance ($208 million in the 2001-03 biennium) is apportioned to the state General Fund (56%), and to city (34%) and county (10%) general funds. The 2003-05 budget projects gross sales of $561 million, with $116 million transferring to the General Fund.

OLCC projects that per capita consumption of distilled spirits and case sales volume will remain stable during the biennium. The combination of population growth, greater customer demand for premium, higher-priced products and rising wholesale liquor prices will cause an 8% increase in total dollar liquor sales from the 2001-03 estimated revenues. The Commission estimates that increased liquor sales will come from inflation in product cost and increasing preference for premium products. Per capita annual consumption is projected to level out for malt beverages at about 21.79 gallons per person and for wine at about 2.63 gallons per person. This will be accompanied by an annual 1.2% increase in population through 2005. Actual privilege tax collections in 2001-03 are estimated to be $25 million.

Even though Other Funds revenues support OLCC operations, the agency's expenditures 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 and making expenditures that are necessary to enhance the generation of revenue while maintaining a controlled distribution environment.

Budget Environment

Enforcing the state's liquor laws requires a variety of approaches to assist individual licensees, as well as the general community, in understanding the laws and regulations governing the proper and lawful operation of a licensed liquor establishment. Underage drinking, illegal alcohol, and sales to minors continue to be the highest compliance issues.

As Oregon continues to experience increases in total population and tourists, service permits, and outlets licensed to sell alcoholic beverages increases. Demand is growing for customer- convenient retail locations to serve more complex, densely populated communities. At the same time, prime retail locations price-per-square foot rent has grown more expensive.

The agency's 2001-03 budget was reduced by $1,801,681 Other Funds based on special session actions during the interim. The Other Funds reduction resulted in an additional $1 million distribution to the General Fund. To manage the reductions, the agency took one-time actions to delay filling vacant positions, defer computer system maintenance projects, reduce training, and delay supply and equipment purchases.

Governor's Budget

The Governor's recommended budget is $83.4 million total funds. This is $4.9 million or 6.2% more than the 2001-03 legislatively approved level. The 2003-05 recommended budget includes reduction packages totaling $2,527,821 Other Funds from the funding level necessary to continue current activities based on special session actions during the interim. The 2003-05 budget reduction will result in an additional $1.4 million distribution to the General Fund. The recommended budget incorporates a reduction of 15.5 FTE in the Regulatory and Administration and Support Services programs, reductions in services and supplies, and capital outlay. To manage the reductions in the Regulatory program, a statutory change is required. The reductions will not negatively impact revenue generation. Increases in the recommended budget reflect adjustments for agents compensation, inflation, and the biennialized cost for 2001-03 compensation plan adjustments.

Specific Governor's recommendations are discussed under each program unit

OLCC – Merchandising

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	5,650,323	6,391,116	6,252,521	6,174,065
Nonlimited	0	2,087,000	2,087,000	2,160,045
Total	**5,650,323**	**8,478,116**	**8,339,521**	**8,334,110**
FTE	48.42	48.42	48.42	48.17

Program Description

Responsibilities of the Merchandising Program all relate to liquor sales and distribution. As a "control state," Oregon has granted the Commission sole authority to sell distilled spirits by the bottle. By marking up the wholesale price 106%, the Commission generates funds to finance its expenses and to produce revenue for state and local government general funds. There are two main divisions of the Program:

- ***Purchasing & Distribution Division*** *(39.42 FTE)* responsibilities include analyzing trends in customer buying and new product availability; purchasing and securely warehousing the liquor; arranging for the shipment of products to the state's retail liquor stores; and settling claims for damaged or defective goods. The Division ensures adequate liquor inventories and a varied selection to satisfy consumer demand.
- ***Store Operations Division*** *(9.0 FTE)* oversees operation of the statewide retail liquor store system, which consists of 238 retail outlets run by contract agents. Funding for agents' compensation is in a separate program, although it is related to the Merchandising Program.

Budget Environment

The focus of the Commission has been on achieving internal operating efficiencies through improvements in technology, contracting out where cost effective, and inventory cost savings.

During the 1999-01 biennium, OLCC established criteria for determining the number and location of liquor stores. OLCC added four new stores in the Portland metropolitan and Bend regions. The Commission continues to consider additional stores to meet customers' growing needs during the 2003-05 biennium. The Commission's *Retail Business Plan for Year 2000 and Beyond* identifies the need to move toward modern electronic retail systems to keep pace with industry and customer needs. The plan calls for investing in capital improvements, modernizing stores, and improving the location of stores. Due to the current economic climate, the Commission postponed a funding request for electronic equipment for stores in 2001-03, hopeful that the economy would recover by 2003 to better afford the package.

Governor's Budget

The Governor's recommended budget of $8,334,110 is $5,411 less than the 2001-03 legislatively approved expenditure level. The recommended budget restores $66,000 Other Funds for one-time administrative reductions taken in the 2002 second special session; phases out $832,304 Other Funds associated with one-time expenses related to the Inventory Management System; and adjusts the base budget by $73,045 Other Funds to reflect the increased cost for processing credit card transactions. The remaining changes in the recommended program budget are adjustments to reflect applying standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $420,507 Other Funds.

HB 5100 from the 2002 fifth special session provides for an additional $267,341 Other Funds limitation to be reduced from the agency's budget since the January 2003 tax measure was not approved by voters. The Governor's recommended budget shifts the biennialized impact of this reduction to the Regulatory and Support Services program areas.

OLCC – Regulatory

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	12,176,272	13,752,628	13,603,716	13,298,889
FTE	102.00	104.00	104.00	91.00

Program Description

The Regulatory Program is responsible for regulating the manufacture, distribution and sale of alcoholic beverages. The Program issues liquor licenses and ensures compliance with liquor laws and OLCC regulations. The Program consists of two divisions:

- ***Regulatory Field Services Division*** *(73.0 FTE)* staff conduct license investigations, respond to complaints, investigate liquor law violations, and work with local groups to resolve problems. There are 11 offices statewide.
- ***Regulatory Policy and Process Division*** *(18.0 FTE)* staff maintain records; issue and renew licenses; coordinate staff involvement in contested case hearings; develop, review, and amend administrative rules; provide technical support and training to Field Services staff;, and administer the alcohol server education and minor decoy programs. The statewide Compliance Unit, which handles complex and high-risk license and enforcement cases, is included in the Regulatory Policy and Process Division.

Budget Environment

The top priorities for the Regulatory Program are preventing sales to minors and visibly intoxicated persons, preventing disorderly establishments, and minimizing problems caused by alcohol businesses and their patrons near the businesses. Alcohol continues to be a major contributor in the four leading causes of death among teens and is linked to other crimes. OLCC participates in an interagency initiative led by the Office of Alcohol and Drug Abuse Programs to address the local community risk factors contributing to underage drinking, tobacco and drug abuse. The agency intends to pursue an increase in regulatory staff to support efforts to enforce underage drinking laws and to reduce the over serving of alcohol.

Governor's Budget

The Governor's recommended budget of $13,298,889 Other Funds is $271,827 less than the 2001-03 legislatively approved expenditure level. The recommended budget is reduced by $1.4 million Other Funds eliminating 11 positions (11.0 FTE) to reflect the impact of the 2002 fifth special session reductions. The reduction includes four Liquor Regulatory Specialists and one Regional Manager which will necessitate a streamlining of liquor licensing processes significantly reducing oversight of licensed applicants. This will require a change in statute to implement. The budget also includes the elimination of two Compliance Specialist 3 positions and four support positions resulting in slower response time to manufacturers and wholesalers and fewer evaluations of Server Education providers and instructors. The budget provides $15,352 Other Funds for overtime payments for the University of Oregon and Oregon State University football game inspection services to assist the two universities to limiting student drinking and ensuring adult patrons are drinking responsibly during sports events. The overtime costs will be reimbursed by the universities. The recommended budget also reflects increases reflecting the application of standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies, and state government service charge assessments for a net increase of $1.1 million Other Funds.

OLCC – Administration and Support Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	12,283,861	12,449,279	12,071,530	13,696,633
FTE	64.60	64.60	64.60	61.50

Program Description

The Support Services Program consists of three subdivisions:

- ***Administration*** *(11.5 FTE)* is responsible for overall administration of the agency; ensures that Commission and legislative policies are carried out; processes and refers cases to the Central Hearings Unit; develops administrative rules; and issues orders in all alcohol server education cases.
- ***Administrative Services*** *(27 FTE)* includes human resources management, information systems support, motor pool fleet management, non-liquor purchasing, mail delivery, and other routine support services.
- ***Fiscal Services*** *(23.6 FTE)* develops and implements systems that provide fiscal accountability for Commission operations, produces and maintains fiscal records, and develops and monitors execution of the agency's budget.

Budget Environment

The numbers of hearing requests are projected to be received at an overall rate similar to that of the current biennium. The division expects approximately 435 new requests for hearing in 2003-05; 80 that will be alcohol server education cases. The division also anticipates preparing and presenting 190 cases for contested case hearing. The impact of legislative actions during the interim special sessions will delay contested case hearings and orders, eliminate ground maintenance, increase repair and maintenance of vehicles and decrease the agency's public outreach efforts.

Governor's Budget

The Governor's recommended budget of $13,696,633 is $1.5 million or 12.8% higher than the 2001-03 legislatively approved expenditure level. The recommended budget is reduced $1 million Other Funds eliminating four positions including one Office Specialist 1, an Office Specialist 2, an Administrative Specialist 1, and a Program Technician 2. There will also be a reduction of hours for one Program Technician 2 and one Office Specialist 2 position. Reductions in services and supplies are reflected in payments to the Employment Department for the Central Hearings Panel, basic supplies, contract ground maintenance, janitorial services, and motor pool. The recommended budget reflects applying the standard inflation rates for other payroll expenses, scheduled merit increases, services and supplies and state government service charge assessments for a net increase of $2.3 million Other Funds and restoring $192,610 for one-time administrative reductions taken in the 2002 second special session.

OLCC – Agents Compensation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	40,585,457	44,356,760	44,356,760	47,932,458
FTE	0.00	0.00	0.00	0.00

Program Description

This program includes an expenditure limitation from liquor revenues to pay contract agents who operate the state's 236 retail liquor outlets. Agents are paid monthly using a formula based primarily on store sales and on whether the store is exclusive (i.e., sells only liquor and related items) or non-exclusive (store is run in conjunction with another business, such as a drug or grocery store). Out of the compensation, agents pay liquor store rent, insurance, telephone, utilities, business taxes, employee salaries and benefits, and other operating costs. From the remainder, they pay their own salaries, benefits and personal taxes.

Budget Environment

The rate of monthly compensation for agents was originally determined annually. In 1979 the Commission started calculating compensation monthly as a percentage of actual monthly sales. Biennial adjustments were made to this basic formula until 1980. The store formula is reviewed and adjusted by the agency every six months. The goal is to provide basic support while encouraging sound retail practices and rewarding sales performance. During the 1997 session the formula, which had been in effect since 1993, was revised to provide the following compensation:

- ***Non-exclusive stores***: 13% of the first $10,000 of monthly sales; plus 6.69% of all monthly consumer sales (up from 5.66% in 1993-95); and 5.22% of all monthly dispenser sales (up from 4.42% in 1993-95); plus up to $118 monthly for deferred compensation if matched by the agent.

- ***Exclusive stores***: based on six sales classifications – 13% of the first $10,000 of monthly sales for annual sales up to $210,000 and five compensation bases ranging from $1,560 to $2,600 per month for sales between $210,000 to more than $1.65 million per year; plus 6.69% of all monthly consumer sales (up from 5.66% in 1993-95); 5.22% of all monthly dispenser sales (up from 4.42% in 1993-95); plus up to $150 monthly for deferred compensation to the extent matched by the agent.

The average compensation rate of 8.54% of forecasted liquor sales for the biennium established by the Legislature resulted in an expenditure limitation of $44,356,760 based on projected sales. Agents' compensation increases when consumption increases or as prices increase. OLCC typically requests an increase in the expenditure limitation from the Emergency Board during the biennium if actual sales exceed forecasted amounts. The Commission expects population growth and rising prices to increase total dollar liquor sales by 8% in the 2003-05 biennium. Agents' compensation would also increase by the same percentage. Some agents continue to incur costs (primarily store leasing and personnel) that are purported to rise at a faster rate, putting pressure on these agents' operations. Lack of data on the Oregon agents' actual costs and related items makes it difficult to develop a precise basis for conducting a market study to determine whether the Oregon liquor agents' compensation is fair in comparison to "market."

Governor's Budget

The Governor's recommended budget of $47,932,458 is $3,575,698 or 8% higher than the 2001-03 legislatively approved expenditure level. The increase reflects an adjustment in agents' compensation to maintain the existing 8.54% compensation rate generated by increased sales volume.

OLCC – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	609,957	198,990	198,990	205,955
FTE	0.00	0.00	0.00	0.00

Program Description

The Capital Improvement Program reflects Commission costs of major deferred maintenance and improvements to Commission facilities. The Commission owns an office and warehouse complex in Milwaukie, which serves as the distribution center for all bottled distilled liquor and houses most agency personnel.

Budget Environment

In the past, the Commission and the Legislature have focused on implementing capital improvements that facilitate the generation of additional revenue or avoid the potential for lost revenue due to facilities or equipment breakdown. These improvements have included a major replacement of the warehouse conveyor system, warehouse heating system, and parking lot upgrades.

Governor's Budget

The Governor's recommended budget of $205,955 is $6,965 higher than the 2001-03 legislatively approved expenditure level providing an inflationary increase of 3.5%. This level of funding will allow the agency to:

- Evaluate boilers for possible replacement ($30,000);
- Evaluate steam heat system for possible re-engineering ($30,000);
- Replace part of the carpet in the office building ($25,000);
- Replace windows in the warehouse repack and boiler room ($25,000); and
- Partially concrete the warehouse parking lot ($75,000).

Public Employees Retirement System (PERS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	48,050,621	39,486,795	47,868,155	50,058,843
Nonlimited	3,337,046,225	3,623,591,048	3,623,591,048	4,209,547,757
Total	**3,385,096,846**	**3,663,077,843**	**3,671,459,203**	**4,259,606,600**
FTE	217.62	219.12	225.64	254.00

The Public Employees Retirement System (PERS) administers the retirement system for all state and public school district employees; and most city, county, and special district employees in Oregon. PERS also administers deferred compensation programs for state employees and employees of local governmental units. It is responsible for all fiduciary activities performed on behalf of system members. This includes receipt of contributions into the retirement trust and deferred compensation trust funds, retirement counseling, retirement benefit determination, and retirement benefit payment. It is not responsible for investment of retirement system or deferred compensation plan assets. The Oregon Investment Council manages the investment of retirement system assets. Deferred compensation plan assets are managed by private fund managers. The twelve-member Public Employees Retirement Board has broad authority for operation of the programs. Day-to-day operations are carried out by the Board-appointed Executive Director and his staff.

PERS – Retirement System Programs

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	46,807,047	38,065,282	46,396,456	48,449,793
Nonlimited	3,337,046,225	3,623,591,048	3,623,591,048	4,209,547,757
Total	**3,383,853,272**	**3,661,656,330**	**3,669,987,504**	**4,257,997,550**
FTE	217.62	208.62	215.14	243.81

Program Description

The Retirement System Programs are responsible for the maintenance of employer and employee accounts, processing of retirements, determination of disability retirement benefits, and payment of retirement benefits. They also sponsor group health insurance plans for retirees. PERS also is the state administrator of the federally mandated Social Security Administration program.

Revenue Sources and Relationships

The System's Other Funds revenues come mainly from employer and employee contributions to the retirement system (2003-05 estimate $2.9 billion) and retirement trust fund investment earnings (2003-05 estimate $6.1 billion). Employee contribution rates are established by law at 6% for all employees except judges, which is 7%. Employer contribution rates are established by the Public Employees Retirement Board based upon advice from its consulting actuary. The Board also determines the level to which certain statutory reserves will be funded from earnings on plan assets. Additionally, revenues come from other administrative fees assessed participants and employers for health fund and social security administration activities, and other miscellaneous non-customary services. These other revenues are estimated to be about $1.2 million.

In prior biennia, investment earnings were estimated to be about 70-80% of total revenues. Three consecutive years of nominal and even negative investment earnings have caused employer required contributions to rise dramatically. The state contribution rate for employers is expected to be more than 8% of payroll above the contribution rate applicable to the 2001-03 biennium. By law, employee contributions cannot be used to pay for administrative costs.

Budget Environment

The demographics of Oregon public employees suggest that retirement counseling and benefit determination will continue to increase over the next decade. Uncertainty about the future of existing PERS benefits, due to public concern about the retirement system cost to taxpayers, is expected to result in significant increases in the numbers of retirements processed in the near future. PERS now provides pension services to approximately 218,000 non-retired members and 86,000 retirees and beneficiaries compared to approximately 195,000 and 79,000, respectively, in the prior biennium.

Additional regulatory requirements and statutory changes affecting pensions have also made the administration of pension plans more complex. Changes to statutory benefits have caused PERS pension plan participants to be grouped as Tier One and Tier Two members. The increasing pension cost to employers has triggered discussion of yet another statutory change that would create another tier of participants. Various legislative and executive branch committees and task forces have been reviewing the PERS statutes and impacts of changes to the system. The Legislature and the Governor-elect have stated publicly that statutory reform is essential.

Additionally, Board actions on distribution of investment earnings and the set-aside of reserves have caused a preliminary court ruling that the Board must redo its original crediting of 1999 earnings to employer and employee accounts. The preliminary ruling also directs the Board to implement new mortality tables and change the method by which it calculates the employer's match of employee account balances.

Adding to the problems were years of relative neglect of internal systems and practices. Past practices have resulted in systemic problems with data reliability and pension benefit calculations. Erroneous data and errors in benefit calculations have caused increased processing costs. Additionally, the existing Retirement Information Management System is incapable of preparing calculation of benefit options that are now statutorily required. As a result, an estimated 40% of retirement benefit calculations must be performed manually. Immediate implementation of new legislation or the final court ruling could increase the amount of manual calculations required. PERS' rapidly aging information system is being modified to optimize its usability while a new information system is developed. PERS seeks funding approval for the new system incrementally as system development needs and costs are identified.

Governor's Budget

The Governor's budget continues existing day-to-day operations adjusted for inflation, with some significant adjustments for Emergency Board actions and higher than expected costs in certain categories. It also includes policy option packages (POP) for additional positions and funding for proposed initiatives. These adjustments and policy option packages are summarized here.

Description	FTE		Amount
Adjustment to continue six additional permanent full-time Information Technology positions approved by the Emergency Board at its November 2002 meeting	6.0		$870,858
POP 101 - Adjustments to increase budget for higher than expected costs – Total			$652,000
Detail - Additional funds for instate travel		$75,000	
Additional funds for dues and subscriptions		$25,000	
Additional funds for publicity and publications		$58,000	
Additional funds for telecommunications		$35,000	
Additional funds for staff training		$40,000	
Additional funds for actuarial services		$200,000	
Additional funds for medical services		$86,000	
Additional funds for health insurance consulting services		$23,000	
Additional funds for professional service contracts		$110,000	
POP 102 - Additional staff and funding to improve data and calculation accuracy	12.0		$1,288,991
POP 103 - Additional staff and funding to clear current workload backlogs	11.0		$1,107,636
POP 104 - Additional staff and funding to improve productivity	1.0		$439,414
POP 105 - Additional staff and funding to address current and future workload	4.5		$465,550
POP 109 - Additional staff and funding to provide services under LC 674 (Note)	3.0		$321,474
Total adjustments and policy option packages	**37.5**		**$5,145,923**

(Note) Subsequent to development of the budget, the Governor decided not to introduce LC 674 as an administration bill.

The budget also includes a policy option package (POP 110) to add $155,858,077 Nonlimited Other Funds expenditure limitation for special payments from the Standard Retirement Health Insurance Account. This account was established to account for the receipt and disbursement of payments received from retirees for health insurance premiums. Prior to this, these funds have been off-budget and have been accounted for in a suspense account. This policy option package simply brings the receipt and disbursement of the funds into

PERS' budget. There is no additional operational cost or additional FTE associated with this policy option package.

The budget does not include any additional funding for systems development discussed above. PERS expects to submit requests incrementally during the interim as needed. If necessary, PERS may also seek additional funding for its Information Technology initiatives during the legislative session.

PERS – Deferred Compensation Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	1,243,574	1,421,513	1,471,699	1,609,050
FTE	0.00*	10.50	10.50	10.19

* Positions are included in Retirement System Programs for the 1999-2001 biennium.

Program Description

The Deferred Compensation Program administers deferred compensation programs for state employees and employees of local governmental units. Most of the support is contracted to a third party service administrator. PERS staff provide services that require a local Oregon presence such as participant and employer education, processing of applications, receipt and transfer of contributions, and staff support to the Deferred Compensation Advisory Committee.

Revenue Sources and Relationships

Revenue to support the program comes from a charge of 0.09 of 1% on deferred compensation trust fund assets. Additionally, the third party administrator receives a fee of 0.175 of 1% on the assets. It also receives funding from the third party administrator to provide plan information and education to local government units.

Budget Environment

Since the last biennium, the number of participants in the Deferred Compensation Program (Oregon Savings Growth Plan) has grown from 17,000 to 19,000. Total plan assets are now about $529 million. During the interim, the Joint Legislative Audit Committee conducted a review of the administration of the program to see if it would be advisable for the entire plan administration to be contracted out. The Committee concluded that the plan administration needed no substantive or statutory fix, but that allocation of staff costs to the program should be improved.

Governor's Budget

The Governor's budget continues the current operation of the program adjusted for inflation. It also includes a small policy option package (POP 202) to reclassify a position and one policy option package (POP 203) to add one position (1.0 FTE) and $95,834 additional expenditure limitation to deal with increased workload associated with growth of the program. The net reduction in FTE for this Program is due to the reduction in the amount of work allocated to back office operations of the retirement system programs. This reduction is due in part to the review conducted by the Joint Legislative Audit Committee.

Oregon Racing Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	2,887,014	3,898,643	4,031,076	4,763,041
Total	**2,887,014**	**3,898,643**	**4,031,076**	**4,763,041**
FTE	18.97	17.68	17.68	17.68

Program Description

The Oregon Racing Commission regulates all aspects of the pari-mutuel industry in Oregon. The Commission oversees racing at Portland Meadows Racetrack, Multnomah Greyhound Park, and at several county fair race sites. The Commission also regulates the off-site simulcast of races. The Commission's goals include ensuring the integrity of the sport as well as the safety of the contestants, public, and animals. Regulatory activities of the Commission include licensing, inspections, and investigations of irregularities.

Revenue Sources and Relationships

Revenues are primarily derived from the state share of wagering receipts, license fees, and licensee fines. All revenues received are used for Commission expenses. Any revenues in excess of expenses are transferred to the General Fund. The state's share of total bets made at horse racing tracks and on simulcast races is 1%. The state's share of total bets made at dog racing tracks and simulcast races is 1.6%. These revenues declined from $8.6 million in the 1991-93 biennium to $2.6 million in the 2001-03 biennium.

The 1997 Legislature authorized the establishment of Multi-jurisdictional Simulcasting and Interactive Wagering Totalizer Hubs (Hubs) in Oregon and provided that up to 1% of gross wagering receipts, which is the pari-mutuel tax, could be collected. The Commission, by rule, has set the state share of Hubs gross wagering receipts at 0.25%. Of this amount, one-third is transferred to the General Fund. The remaining two-thirds is retained by the Commission to be used for "the benefit of the Oregon pari-mutuel racing industry." This money has been used to support racing at county fairs by enhancing purses and providing jockey incentives. The Commission also collects a license fee of $200 per operating day from Hubs. The Commission estimates $0.6 million in Hubs revenue will be transferred to the General Fund in the 2003-05 biennium.

Budget Environment

The Oregon racing industry has entered a period of relative stability after years of uncertainty. Live racing occurs year round, split between greyhound racing at Multnomah Greyhound Park and horse racing at Portland Meadows Racetrack. Both tracks are operated by a large company that operates numerous racing venues across the nation. This company has purchased the long-term lease for Portland Meadows, ensuring that horse racing will continue to take place in Oregon.

Commission revenue has become increasing dependent on the five Hubs currently operating in the state. The 2003-05 budget assumes all five Hubs will continue to operate in Oregon and the Commission will continue to collect the $200 per operating day licensing fee and 0.25% of gross wagering receipts. One other state now allows operation of Hubs, without collecting a share of wagering receipts. Other states are also considering allowing Hubs to operate. The possibility of Hubs relocating operations outside of Oregon, or the Commission being forced to lower licensing fees or the state's share of gross wagering receipts to retain a Hub, represents a risk to that portion of the Commission's revenue.

The 2001 Legislature directed the Commission to maintain not less than six months of operating funds and to transfer revenue in excess of this balance to the General Fund. During the 2002 third special session, the Legislature recognized the Commission would transfer $750,000 more to the General Fund than anticipated in their adopted budget due to an increase in Other Fund revenue from Hubs.

Governor's Budget

The Governor's budget is 22% higher than the 2001-03 approved budget. The budget included an additional $544,666 Other Funds for grants to benefit the Oregon pari-mutuel racing industry. This represents the two-thirds portion of an anticipated increase in the gross receipts tax on Hubs wagering that is dedicated to the development of Oregon's racing industry. The budget was reduced by $25,000 for services and supplies to more accurately reflect past expenditure history.

Department of Revenue (DOR) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	111,204,026	119,365,959	117,831,874	132,081,313
Other Funds	16,820,075	19,140,313	19,829,147	21,687,886
Nonlimited	182,667	186,544	186,544	219,100
Total	**128,206,768**	**138,692,816**	**137,847,565**	**153,988,299**
FTE	924.66	959.72	959.22	942.80

The Department of Revenue administers the State's income tax and property tax programs. In addition, the Department collects revenue from a variety of sources and transfers it to various state and local agencies. These revenue sources include taxes on: a) cigarettes and other tobacco products; b) amusement devices; c) payroll (for local mass-transit); d) timber, oil, and gas severance; and e) the harvesting of forest products. The Department also collects and distributes hazardous substance fees, court fines and assessments, and taxpayer check-off donations; serves as the collection agency for fines, forfeitures, and assessments owed to state agencies; and administers property tax relief programs for senior citizens and persons with disabilities. Altogether, the tax programs the Department administers generate 95% of General Fund revenue and 85% of local government revenue.

Revenue Sources and Relationships

The Department is mainly supported by the General Fund. Other Funds revenue is derived from charges to various Other Funds tax, fee, assessment, and other programs to cover the Department's administrative costs. Charges are based on time studies that determine the cost to each division of administering these programs. Other Funds also are received from the Assessor Funding Program. This program provides revenue to both the Department and to county governments from interest paid on delinquent property taxes and from a document-recording fee. A portion of each recording fee ($1) is dedicated to the development of a statewide mapping system (ORMAP) to improve the administration of the property tax system. These funds are distributed to counties for projects to meet that goal.

The following table displays sources and amounts of estimated Other Funds revenues for 2003-05:

SOURCE	2003-05 ESTIMATED
State Agency Collections	$ 6,614,000
Assessor Funding Program	$ 5,285,000
Employer-Employee Taxes (primarily Tri-Met and Lane Districts)	$ 5,276,000
Senior and Disabled Citizens' Property Tax Deferral	$ 1,463,000
ORMAP	$ 1,415,000
Others	$ 1,823,000
TOTAL REVENUES	**$ 21,876,000**

Budget Environment

The Department projects modest population and economic growth for the 2003-05 biennium. Over the past several biennia, the Department has been successful in addressing funding constraints and increased workloads by developing and enhancing automated systems, implementing an aggressive employee training program, reorganizing, and revising operating procedures.

The Department's 2001-03 budget was reduced by $4,436,138 General Fund based on special session actions during the interim. The Department received an additional $2,902,053 General Fund for partial funding of employee salary and benefit increases, about $1 million less than needed to fully fund those increases. To manage a portion of these reductions, the Department took one–time actions to delay filling vacant positions and supply and equipment purchases. Because the most significant reduction resulted from failure of Ballot Measure 28, the Department will lay off about 126 persons in February 2003.

Governor's Budget

The Governor's budget generally restores budget reductions imposed after the special election. The restorations are discussed in more detail under the various operating programs below.

DOR – Executive Section

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,747,732	1,760,872	1,808,356	3,127,235
Other Funds	255,451	54,136	61,082	287,097
Total	**4,003,183**	**1,815,008**	**1,869,438**	**3,414,332**
FTE	22.16	6.00	6.00	18.01

Program Description

The Executive Section is responsible for overall administration of the agency and for coordinating the agency's legislative, rulemaking, communications, and internal audit functions.

Governor's Budget

The Governor's budget reflects the movement of staff from a departmental reorganization and continues operations and staff at the current level. Communications staff, formerly part of the Administrative Services Section, are now incorporated in the Executive Section. Additionally, one Legislative Liaison position was established. The budget takes into account a reduction imposed during the special sessions and includes adjustments for inflation and expected salary and wage increases (excluding salary adjustments for range 38 and above).

DOR – Administrative Services Section

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	213,995	3,490,144	3,490,144	684,458
Other Funds	752,592	375,012	375,012	93,157
Total	**966,587**	**3,865,156**	**3,865,156**	**777,615**
FTE	0.00	31.01	31.01	0.00

Program Description

The Administrative Services Section used to provide personnel, budget, communications, research, and publication services for the agency and accounts for the receipt and distribution of all tax revenues. Those staff and activities have been transferred to other operating units as part of a departmental reorganization. For internal budgetary purposes the flow of tax revenues are accounted for here.

Governor's Budget

For internal budgeting purposes, the Governor's budget sets aside a portion of expected central agency costs for postage, legal expenses, motor pool, and other. No personnel costs are included in this budgetary category.

DOR – Information Processing Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	32,488,160	35,217,141	35,488,379	38,472,255
Other Funds	4,892,481	3,703,099	3,815,226	4,124,846
Total	**37,380,641**	**38,920,240**	**39,303,605**	**42,597,101**
FTE	292.88	291.34	291.34	278.50

Program Description

The Information Processing Division provides computer processing systems and support services to the agency's other divisions, processes incoming tax returns, scans returns for errors, processes and banks tax payments, enters and transfers taxpayer data to computer storage and maintains information files. This division also provides the Department's purchasing, personnel, facilities management, and accounting and other fiscal support.

Budget Environment

Historically, the Division's activities have been carried out in a high-volume, production-type environment. As the Department adds new systems and becomes more dependent on automation, well-trained and experienced information systems staff are needed to maintain computer systems. According to the agency, the rapid increase in computer-related salaries in the private sector has made it difficult to attract and retain skilled information systems staff. The Division's 2001-03 budget was reduced substantially because of reductions imposed by HB 5100.

Governor's Budget

The Governor's budget reflects the movement of staff from a departmental reorganization. Budget and personnel staff, formerly part of the Administrative Services Section, are now incorporated in the Division. Additionally, the Tax Help Section that provides help to taxpayers by telephone was transferred to the Personal Tax and Compliance Division. The Governor's budget generally restores budget reductions imposed after the special election. It also reflects positions phased out or eliminated during the interim. The budget also includes adjustments for inflation and expected salary and wage increases (excluding salary adjustments for range 38 and above). While the Governor's budget does not restore fully the impact of reductions, it is considered sufficient to maintain operating support at a level that protects the Department's ability to process tax returns, support taxpayer compliance efforts, and continue its property tax responsibilities.

DOR – Property Tax Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	20,012,577	19,859,608	19,794,741	21,187,982
Other Funds	4,457,102	7,775,085	8,020,395	8,522,677
Total	**24,469,679**	**27,634,693**	**27,815,136**	**29,710,659**
FTE	141.39	142.71	142.21	139.19

Program Description

The Property Tax Division oversees the property tax system and ensures that counties comply with all property tax laws and rules. To these ends, the Division develops procedures, advises and trains county staff, and conducts reviews of county actions. Responsibilities also include conducting appraisals on all industrial manufacturing plants valued at $1 million or more (currently valued at a total of $17.4 billion); appraising all utility, transmission, communication, and transportation properties (currently valued at $12.2 billion); and administering several timber tax programs.

The Division also oversees ORMAP, a project to develop the statewide base mapping system mandated by HB 2139 (1999) for improvement in the administration of the property tax system.

Budget Environment

In 1989, the Legislature created the Assessor Funding Program to supplement funding of property tax assessment and taxation functions. The Department uses its portion of the funding for appraising industrial properties valued between $1 million and $5 million, for training county personnel, and for conducting performance reviews of county programs. The 1999 Legislative Assembly modified the sources of funds for this program slightly: it retained the interest rate charged on delinquent property tax accounts, with a portion (generally 25%) of the interest collected transferred to the program, amended document recording fees, and expanded the base of documents subject to the fee. It also allowed the Department to receive up to 10% of the moneys in the County Assessment and Taxation Fund to pay for its appraisal of industrial properties and oversight of the property tax system. Additionally, $1 of each document recording fee is dedicated to the statewide mapping system. This fee is expected to generate approximately $2 million biennially.

The Department views the Assessor Funding Program as an important tool in implementing Ballot Measure 50, which requires that property values be on the assessment rolls at real market value. The focus for the 2003-05 biennium is on continuing assistance to counties in adapting to the Measure 50 system. The system is more complex than originally thought. For example, Measure 50 requires counties to carry multiple values on the tax roll and, in some cases, as many as seven different values have to be tracked for one property.

The Division's 2001-03 budget was reduced substantially because of reductions imposed by HB 5100.

Governor's Budget

The Governor's budget generally restores budget reductions imposed after the special election. It reflects positions phased out or eliminated during the interim. The budget also includes adjustments for inflation and expected salary and wage increases (excluding salary adjustments for range 38 and above). The budget is intended to maintain operating support at a level that protects the Department's ability to carry out its property tax responsibilities.

DOR – Personal Tax and Compliance Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	32,382,499	35,619,624	34,821,720	42,103,882
Other Funds	1,462,580	1,578,090	1,620,612	2,051,481
Total	**33,845,079**	**37,197,714**	**36,442,332**	**44,155,363**
FTE	308.87	318.01	318.01	329.07

Program Description

The Personal Tax and Compliance Division administers the personal income tax program. Responsibilities include auditing and encouraging voluntary compliance for the personal income tax, collecting delinquent personal income taxes, and collecting local option taxes. In addition, the Division administers the Elderly Rental Assistance Program, and provides help to taxpayers by telephone (Tax Help Section) and through information publications.

Budget Environment

The Division's workload has been increasing over time as the state's population grows and more personal income tax returns are filed. Approximately 6.1% more returns were filed for 1999 than for 1996. Of this increase, traditional paper returns have decreased by 5.4% and electronic filings have increased by 191%. The Division has added and improved automated systems to help handle the growth as well as the change in filing methods. Workloads are also increasing as more taxpayer data becomes available from federal and other sources. The Department expects to address collection issues through re-engineering of existing systems and processes and through positions added by the 1999 and 2001 Legislatures to enhance revenue collections.

As with other divisions, this Division's 2001-03 budget was reduced substantially because of reductions imposed by HB 5100.

Governor's Budget

The Governor's budget generally restores budget reductions imposed after the special election. The budget takes into account a reduction imposed during the special sessions and includes adjustments for inflation and expected salary and wage increases (excluding salary adjustments for range 38 and above). The increase in FTE is due to the transfer of the Tax Help Section from the Information Processing Division. The budget is intended to maintain operating support at a level that protects the Department's ability to carry out its personal income tax and compliance responsibilities and initiatives.

DOR – Business Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	12,289,742	14,418,569	13,753,723	17,235,500
Other Funds	4,999,869	5,654,891	5,936,820	6,608,628
Total	**17,289,611**	**20,073,460**	**19,690,543**	**23,844,128**
FTE	159.36	170.65	170.65	178.03

Program Description

The Business Division administers several tax programs, including corporate income and excise taxes, the employer withholding tax, the transit payroll and self-employment taxes, the fiduciary, inheritance, and cigarette taxes, and other agency accounts and special programs. Responsibilities include auditing tax returns and collecting delinquent taxes and other delinquent accounts. The Division also provides debt collection services for state and local agencies and for state and municipal courts in all 36 counties.

Budget Environment

Currently, the Division is collecting on 207,000 accounts owed to 218 state offices and agencies. The number of delinquent accounts is expected to increase. The Division is using more automation to help handle workload growth. Additionally, the 1999 and 2001 Legislatures added positions to enhance revenue collections.

This division also collects revenues from cigarette tax stamps. In 1997-99, revenues of $357 million were generated. That number dropped dramatically in the following biennium. The Department reports that, although there are fewer smokers in Oregon, the drop in the number of cigarette tax stamp sales appears to be in part due to noncompliance issues. The 2001 Legislative Assembly provided additional staff and funding for a Tobacco Tax Force that was to include personnel from the State Police and the Attorney General. The Department reported to the Emergency Board that the task force's efforts have improved tobacco tax collections as expected.

This Division's 2001-03 budget also was reduced substantially because of reductions imposed by HB 5100.

Governor's Budget

The Governor's budget reflects the movement of staff from a departmental reorganization and continues operations and staff at the current level. Research staff, formerly part of the Administrative Services Section, are now incorporated in the Division. The budget generally restores budget reductions imposed after the special election, including staff and funding for tobacco compliance. It takes into account a reduction imposed during the special sessions and includes adjustments for inflation and expected salary and wage increases (excluding salary adjustments for range 38 and above). The budget is intended to maintain operating support at a level that protects the Department's ability to carry out its business tax and compliance responsibilities and initiatives.

DOR – Multistate Tax Commission

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Nonlimited	182,667	186,544	186,544	219,100
FTE	0.00	0.00	0.00	0.00

Program Description

Through the Department of Revenue, Oregon is a member of the Multistate Tax Commission, which is composed of 40 states that have joined together to promote uniformity in state taxation of corporate income. Dues to the Commission are proportional to the amount of tax revenue each state collects. The budget reflects the Nonlimited expenditures for these dues.

Budget Environment

The Commission expects to maintain its current level of services to members.

Governor's Budget

The Governor's budget is the state's expected assessment for operational expenses of the Multistate Tax Commission.

DOR – Elderly Rental Assistance

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	10,069,321	9,000,000	8,674,810	9,270,000
FTE	0.00	0.00	0.00	0.00

Program Description

The Elderly Rental Assistance program provides direct tax relief to elderly, low-income renters. Benefits are based on income levels and the amount of rent, fuel, and utilities paid. The benefits are available to renters age 58 or over with household income under $10,000, household assets (if under age 65) that do not exceed $25,000, and gross rent in excess of 20% of household income. Through this program, payments are also made to local governments in lieu of property taxes on certain tax-exempt housing for the elderly.

Budget Environment

The program has experienced a steady decline in payments to renters over the last several biennia. In part this was because, as the Oregon economy improved, fewer individuals met the program's eligibility criteria (which are not indexed to inflation). The Department expects that the decline has leveled off in the 2001-03 biennium. The 2001-03 budget was reduced by actions taken during special sessions.

Governor's Budget

The Governor's budget is the amount of benefits expected to be paid during the 2003-05 biennium. It is higher than the 2001-03 biennium, due, in part, to the sluggish economy.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	1	1	1
FTE	0.00	0.00	0.00	0.00

Program Description

The Senior Citizens' Property Tax Deferral portion of this program allows homeowners age 62 and over who meet program income limits to defer payment of property taxes and special assessments until the owner dies, sells the property, or stops using it as a principal residence. The state pays the tax and obtains a lien on the property for the tax and for accrued interest at the rate of 6% per year. The deferred taxes and interest are collected when the property is disqualified. Moneys received as properties are disqualified and their deferred taxes are paid finance the taxes the State pays under the program. The household income limit to qualify for the program is $32,000 beginning in 2002-03 and indexed to inflation thereafter. The program also is available to disabled persons meeting household income limits.

Budget Environment

The Senior Citizens' component of the program has expanded from 834 accounts in 1978 to 10,000 in 2001, with over $130 million deferred. The Disabled Citizens' component of the program had about 200 participants in its first year (2001-02 tax year).

The General Fund makes up any shortfall in the program. Currently it is self-supporting and no shortfall is anticipated this biennium. The projected reserve balance at June 30, 2003 is $23 million.

Governor's Budget

The Governor's budget has a $1 placeholder to highlight the potential obligation of General Fund to support the program.

Secretary of State (SOS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended[1]
General Fund	13,046,851	14,199,074	12,641,681	11,235,665
Other Funds	23,939,404	28,054,465	29,136,787	32,932,700
Federal Funds	0	1	1	1
Nonlimited	42,641	166,678	166,678	172,328
Total	**37,028,896**	**42,420,218**	**41,945,147**	**44,340,694**
FTE	201.42	208.67	208.67	212.67

[1] Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, Treasurer of State, and Secretary of State). The 2003-05 Governor's recommended budget funds only 88.9% of the General Fund in the 2001-03 legislatively approved budget for the Secretary of State. The net effect is a $1.9 million reduction to the Secretary of State's General Fund budget request. The Governor's budget includes biennialized reductions based on the amount in HB 5100 (2002 fifth special session).

Program Description

The Office of the Secretary of State is one of three established at statehood. The Secretary is auditor of public accounts, chief elections officer, and manager of the state's records, a role that includes preserving official acts of the Legislative Assembly and the Executive Branch. The Secretary of State serves with the Governor and Treasurer of State on the State Land Board, managing state-owned lands for the benefit of the Common School Fund. With the Governor and the Treasurer of State, the Secretary of State also serves on the Prison Industries Board, which oversees prison work programs.

Revenue Sources and Relationships

Other Funds revenues are dedicated to the programs that generate them. Service charges from other state agencies fund the Audits Division, and Corporation filing fees fund the Corporation Division. The Archives Division receives Other Funds revenue from the sale of administrative rules and the Oregon Blue Book. It also charges other state agencies for storage of their records. Internal service divisions' Other Funds are revenue transfers from those divisions they support.

Budget Environment

The Secretary of State is a separately elected, constitutional office. However, the Office has adopted the 2003-05 budget development guidelines established by the Department of Administrative Services. The operations (and budgets) of two of its divisions are affected by forces outside of their control. These are the Elections Division and the Corporation Division. The Elections Division's budget is almost all General Fund and is affected by ballot measures, special elections, election litigation, and the voters' pamphlet's volume and complexity. The Corporation Division is affected by services demanded by the public. The Division is responsible for processing filings of business entities, trademarks, Uniform Commercial Code (UCC) financing statements, and responding to requests for information on existing businesses, UCC filings, notaries and notary commissions, and requests for information to start a business. Operations of the other divisions and offices are less affected by outside forces and their budgets are somewhat more controllable as a result.

SOS – Executive Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	1,209,544	2,248,665	1,842,216	983,394
Other Funds	0	0	344,600	396,509
Total	**1,209,544**	**2,248,665**	**2,186,816**	**1,379,903**
FTE	6.00	8.00	8.00	6.00

Program Description

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 2001 Legislature established the Cultural Development Grant Program, also to be housed within the offices of the

Secretary of State.

Budget Environment

The 2001 Legislative Assembly created a Trust for Cultural Development Board to oversee the activities of a newly established Trust for Cultural Development Account. By law, the Secretary of State was to provide the staff support to the Trust for Cultural Development Board. The Legislature provided $1.1 million to the Secretary of State for these purposes: $300,000 and 2.0 FTE for staff support to the Board, and $800,000 for the Board to provide grants for cultural purposes.

The Trust for Cultural Development Account, within the Executive Office, was reduced by $314,448 General Fund based on special session actions during the interim. In future budgets, including the budget for the 2003-05 biennium, administrative funding for the Trust for Cultural Development Board was intended to shift from General Fund to Other Funds.

Governor's Budget

The Governor's recommended budget for the Executive Office is a 36.9% decrease when compared to the legislatively approved budget for 2001-03. The recommended budget:

- phases out funding for the Oregon Cultural Trust Board and establishes a separate Oregon Cultural Trust Division within the agency;
- reclassifies upward three positions including the Cultural Trust Director, Chief of Operations, and the Press Secretary;
- phases out General Fund for redistricting costs; and
- phases out General Fund for an audit of the Deschutes County Juvenile Justice project.

SOS – Archives Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	3,269,087	3,506,582	3,351,100	3,759,808
Other Funds	796,752	1,540,497	1,561,816	1,754,522
Federal Funds	0	1	1	1
Nonlimited	0	99,288	99,288	102,580
Total	**4,065,839**	**5,146,368**	**5,012,205**	**5,616,911**
FTE	21.92	23.17	23.17	23.17

Program Description

The Archives Division stores public records and protects and provides public access to Oregon's documentary heritage. The Division also gives records management advice and assistance to state and local agencies and publishes the state's administrative rules. Services are provided by its Reference, Records Management, State Records Center, and Publications units.

Revenue Sources and Relationships

The Other Funds revenue is from the sale of annual Oregon Administrative Rules Compilation ($600 each); the monthly Oregon Bulletin ($150/year) which provides monthly updates to the Compilation; and the Oregon Blue Book ($18 each). The Division also assesses other state agencies for records they have stored at the State Records Center. Miscellaneous receipts for document copies are expected to generate an additional $90,000. The Federal Funds expenditure limitation is a placeholder for possible receipt of funds from the National Historical Publications and Records Commission. A small amount of Nonlimited Other Funds is received from charges for copies.

Budget Environment

Reference activities are driven by demand for services. Automation has enabled customers to do much of their own research. Staff responsibilities have shifted to help customers exchange information and structure requests for services to insure prompt, accurate responses. Records Management and State Records Center activities are driven by government demand for records retention and disposal services. The Publications Unit publishes the Oregon Blue Book biannually, and publishes updates to Oregon administrative rules as they are adopted by various agencies.

The Archives Division budget was reduced by $238,800 General Fund based on special session actions during the interim.

Governor's Budget

The Governor's recommended budget for the Archives Division is 12.1% more than the legislatively approved budget for 2001-03. The budget restores the two Records Manager positions eliminated during the 2002 special sessions and shifts the funding for these positions from General Fund to Other Funds. Funding for two other positions is also shifted from General Fund to Other Funds. The additional Other Funds are derived from user fees, assessments, and document sales.

SOS – Audits Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	11,152,516	12,360,123	12,631,253	13,810,200
FTE	78.00	78.00	78.00	78.00

Program Description

The Audits Division was created to carry out the Secretary's constitutional duties as auditor of public accounts to assure that public funds are properly accounted for and spent in accordance to legal requirements. The Division performs, or contracts for, financial and compliance audits and performance audits of state agencies.

Revenue Sources and Relationships

The law requires the Division to recover its costs for the audits from the agencies. Most state agencies pay for audits through a biennial assessment based on an analysis of audit risk and resources needed to audit that risk. Certain state agencies whose operations are predominately funded with dedicated trust funds (e.g., Department of Transportation and Public Employees Retirement System) are billed directly for audit costs. The Division expects these assessments and billings to approximate $16.4 million for the biennium. The Division estimates that it will receive $258,500 in filing fees from about 1,700 municipal corporations for the audit reports that are statutorily required to be filed with the Secretary of State.

Budget Environment

As the constitutional auditor of public accounts, the Secretary of State does not have to compete with private sector auditors and is able to recover all of its costs through assessments and billings. Agencies may not challenge their assessments or billings, nor can they choose not to be audited by the Secretary of State. The Audits Division budget is affected only by legislative action on its budget request.

Governor's Budget

The Governor's recommended budget is 9.3% more than the legislatively approved budget. The increase in the budget can be attributed to the restoration of a $500,000 Other Funds reduction taken during the 2002 special sessions, 15% inflation of facility rental, and 10% rate increase in Attorney General charges. No new positions, programs, or policy packages are included.

SOS – Business Services Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	500,164	559,996	576,977	615,498
Other Funds	1,446,642	1,846,063	1,923,341	2,103,517
Total	**1,946,806**	**2,406,059**	**2,500,318**	**2,719,015**
FTE	16.00	17.00	17.00	17.00

Program Description

The Business Services Division provides administrative support services for the other divisions of the Office of the Secretary of State. Activities performed by the Division include accounting, budgeting, cashiering, payroll, purchasing, contract administration, safety and risk management, fixed assets, and inventory control. The Division previously provided data processing and personnel support services which are now provided by the Information Systems Division and Personnel Resources Division, respectively.

Revenue Sources and Relationships

The Other Funds consist of revenue transfers from other agency divisions served by the Business Services Division. The transfers are based on estimates of the number of accounting entries, full-time equivalent positions, and time spent by Division staff on each of the divisions.

Budget Environment

The Business Services Division's budget reflects the activities of the other divisions. As workload demands fluctuate in other divisions, the demand for services from the Business Services Division would fluctuate in a like manner. Some examples would be the Election Division final filing days, Corporation and Business Registry filings, Archives Administrative Rule Bulletin sales, Blue Book sales, changes in statutes, and technology upgrades.

Governor's Budget

The Governor's recommended budget is 8.7% more than the legislatively approved budget. The General Fund portion of the budget is increased by 6.7%. The budget includes adjustments for inflation and a pro-rated reduction to services and supplies based on special session action. A reclassification of one position is included in the budget; however, no additional funding is required.

SOS – Corporations Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	6,440,626	6,253,895	6,500,162	6,983,297
FTE	44.50	42.50	42.50	42.50

Program Description

The Corporation Division is responsible for three major programs: 1) Business Registry - the filing of business names; 2) Uniform Commercial Code - the filing of secured transactions; and 3) Notary Public - commissioning and regulating notaries.

Revenue Sources and Relationships

The Other Funds revenue comes from business filings, secured transactions, and notary public fees. The 1999 Legislative Assembly, through HB 2212, reduced and simplified business registration fees to be more in line with the actual costs of operating the Division. The new fees became effective July 1, 2001 and, as a result, the Division will no longer transfer approximately $10.6 million per biennium to the General Fund. The Division estimates total revenues of about $14.8 million for the 2003-05 biennium.

Budget Environment

Business activity drives both the revenues and costs of the Division. The Division processes an average of 27,000 documents per month for its three major programs. Automation and electronic access to documents has allowed the Division to continue to process these documents and make them available to the public without increased staff. Increased use of the Internet to access documents has reduced the Division's collections for search services and document copies.

Governor's Budget

The Governor's recommended budget is a 7.4% increase over the legislatively approved budget. The increase is attributed to inflation and the reclassification of one position. No additional positions or new programs are part of the recommended budget.

SOS – Elections Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	7,246,355	4,927,452	5,635,047	4,095,289
Nonlimited	42,641	67,390	67,390	69,748
Total	**7,288,996**	**4,994,842**	**5,702,437**	**4,165,037**
FTE	15.00	15.00	15.00	16.00

Program Description

The Elections Division administers the state's elections laws, investigates election law violations, and enforces applicable laws; receives for filing all documents related to state elections; publishes statewide voter's pamphlets; and administers the filing and verification of initiative, referendum, and recall petitions.

Revenue Sources and Relationships

The Other Funds revenue includes charges for copies of documents and special forms; providing telecommunication capabilities; and charges to County Clerks for election materials and supplies. The Division estimates these revenues at nearly $70,000 for the biennium. Voters' pamphlet and elections filing fees are not revenues to the Division because they are deposited into the General Fund. The Division expects to transfer $320,000 to the General Fund during the 2003-05 biennium.

Budget Environment

The Division must deal with ballot measures, elections, election litigation, and the voters' pamphlet in an open and responsive manner. The number of ballot measures qualifying for the general election and the comments in support of or against the various measures directly affects the size and cost of the voters' pamphlet. Other external factors that affect this Division's costs include legal challenges to ballot measures and election results.

The Division's 2001-03 budget was reduced by $367,900 General Fund during the special sessions for a reduction in voter's pamphlet costs. During the interim the Division received a General Fund allocation of $1,368,689 for costs associated with the September 2002 special election.

Governor's Budget

The Governor's recommended budget is 27% less than the 2001-03 legislatively approved budget. The reduction can be attributed to the phase-out of the one-time special election costs mentioned above and one-time expenditures for a study of multilanguage voter materials. The budget includes funding and position authority for an additional Investigator to investigate election fraud statewide.

SOS – Information Systems Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	755,576	2,868,764	1,146,090	1,679,160
Other Funds	3,832,960	5,734,221	5,842,315	6,945,733
Total	**4,588,536**	**8,602,985**	**6,988,405**	**8,624,893**
FTE	17.00	22.00	22.00	25.00

Program Description

The Information Systems Division provides centralized information technology services to the various divisions and offices of the Secretary of State. It is responsible for database administration, Internet development, and application development and maintenance.

Revenue Sources and Relationships

The Other Funds revenue comes from revenue transfers from other divisions within the agency. These transfers are based on estimates of FTE, Netware users, network connections, desktops, laptops, workstations, peripheral devices, and database services that it supports.

Budget Environment

The Information Systems Division's budget reflects the activities of the other divisions. The needs of these other divisions determine the priorities, projects, and services of the Information Systems Division.

Governor's Budget

The Governor's recommended budget is 23.4% above the legislatively approved budget while the General Fund portion of the budget is 46.5% higher. The Governor's budget:

- phases out one-time expenditures of $2.4 million Other Funds associated with information systems projects specific to the 2001-03 biennium;
- establishes three new positions for new application development, security, and testing ($122,426 GF, $532,853 OF);
- increases funding for a variety of technology projects ($450,000 GF, $1,594,800 OF);
- adds funding for software maintenance as an ongoing operational expense ($750,000 OF); and

- shifts funding for positions to bring funding in line with actual work performed.

SOS – Personnel Resources Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	66,125	87,615	90,251	102,516
Other Funds	269,908	319,666	333,300	386,914
Total	**336,033**	**407,281**	**423,551**	**489,430**
FTE	3.00	3.00	3.00	3.00

Program Description

The Personnel Resources Division provides human resource services for the other divisions and offices of the Secretary of State. Operations of the Division were previously budgeted and accounted for in the Business Services Division.

Revenue Sources and Relationships

The Other Funds revenue comes from revenue transfers from other divisions within the agency. The transfers are based on the distribution of positions throughout the Office of the Secretary of State.

Budget Environment

The Personnel Resources Division's budget reflects the activities of the other divisions within the agency.

Governor's Budget

The Governor's recommended budget is 15.6% above the legislatively approved budget for 2001-03. The majority of the increase is attributed to inflation adjustments for facility rental, Attorney General charges, and professional services. The budget reclassifies two positions to make them consistent with duties performed. The reclassifications have minimal fiscal impact.

SOS – Cultural Trust Division

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
Other Funds	0	0	0	552,008
FTE	0.00	0.00	0.00	2.00

Program Description

The 2001 Legislative Assembly created the Trust for Cultural Development and placed the Trust within the responsibilities of the Secretary of State. The Cultural Trust raises funds to support culture and arts in Oregon. During the 2001-03 biennium these responsibilities were placed within the Executive Office of the agency. The Secretary of State now proposes a separate division to conduct these responsibilities.

Revenue Sources and Relationships

HB 2923 and HB 5014 (2001) provided one-time General Fund for the start-up phase of the Cultural Trust while the program established itself. The Cultural Trust is designed to operate from a percentage of the donations received. The legislation also created a tax credit for amounts contributed to the Trust for Cultural Development Account and cultural organizations. Proceeds from the sale of some state owned property would also be deposited into the account.

Budget Environment

The Cultural Trust Division budget is determined by the amount of donations received and the funding available for distribution for cultural development, community cultural participation, and core partner agencies.

Governor's Budget

The Governor's recommended budget shifts funding for the Cultural Trust from General Fund to Other Funds as was intended in the enabling legislation. The budget includes funding for two positions and associated services and supplies expenditures. No new programs or enhancements to existing programs are included in the budget.

Treasurer of State – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	101,136	281,771	272,291	0
Other Funds	16,020,959	17,962,702	18,609,143	19,895,846
Nonlimited	3,855,786	4,500,000	4,500,000	5,530,000
Total	**19,977,881**	22,744,473	23,381,434	**25,425,846**
FTE	76.38	78.00	78.25	78.00

The Treasurer of State acts as the "banker" for all state agencies by maintaining their accounts and by investing their funds (Trust Funds, constitutional bond funds, and any funds not necessary to meet current expenditure demands). The Treasurer coordinates and approves state bond sales, acts as collateral pool manager for the state's largest banks, and pays on bonds submitted by bondholders. The Treasurer also invests excess funds for local governments. The Treasurer also is responsible for administration of the Oregon Qualified Tuition Savings Program.

Treasury Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	15,539	10,195	0
Other Funds	16,020,959	17,962,702	18,436,856	19,500,840
Nonlimited	3,855,786	4,500,000	4,500,000	5,530,000
Total	**19,876,745**	**22,478,241**	**22,947,051**	**25,030,840**
FTE	76.00	77	77	76.00

Program Description

Treasury Operations are organized into five operating sections**:** ***Investment*** invests the state held funds; ***Oregon Short Term Fund*** invests state and local funds held in the short term fund; ***Finance*** provides banking services for all state agencies; ***Debt Management*** coordinates and approves issuance of state agency bonds; and ***Collateral Pool*** assures that public funds held in financial institutions are properly collateralized and acts as pool manager for the four largest Oregon banks.

Revenue Sources and Relationships

Other Funds consist of revenue from a charge on investments managed (up to 0.435 of one percent), estimated to be $14.5 million; charges to banks that use the Treasurer as a collateral pool manager, estimated at $183,000; charges to state agencies for bond and coupon redemption on outstanding general obligation bonds and to state agencies and municipalities for bond issuance costs, estimated at $2.7 million; and charges to state agencies for banking services and to state agencies and municipalities for bond issuance costs, estimated at $2.3 million. The Treasurer also estimates Nonlimited revenues of $2.7 million which are the result of direct pass-throughs of certain banking charges incurred for its customers. The Treasurer also incurs approximately $2.8 million of Nonlimited expenditures for investment charges paid from investment earnings.

Budget Environment

The budget is driven by the number and complexity of financial transactions, the complexity and diversity of investments, the number and kinds of bond transactions, and the number of programs operated out of the Treasurer's Office. The Oregon Public Employees Retirement Fund (OPERF), State Accident Insurance Fund (SAIF), Oregon Short Term Fund, and Common School Fund account for most of the Treasurer's investment activity. Generally, growth of these funds has increased Treasurer investment costs and revenues. The Treasurer relies heavily on automation to service this growth without a corresponding growth in personnel.

Governor's Budget

The Governor's budget anticipates no significant changes in Treasury Operations. During the 2001-03 biennium, Treasury eliminated one position as part of a reallocation of workload and job classifications. The current budget reflects that reduced staff level. The budget also phases out the General Fund provided for the statutorily increased salary of the Treasurer of State. Due to budget reductions, the second year salary increase for all elected officials was postponed.

Qualified Tuition Savings Program

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	101,136	266,232	262,096	0
Other Funds	0	0	172,287	395,006
Total	**101,136**	**266,232**	**434,383**	**395,006**
FTE	0.38	1.00	1.25	2.00

Program Description

The Oregon Qualified Tuition Savings Program administers a savings program designed to encourage persons to set aside money for future educational costs. The Oregon Qualified Tuition Savings Board, which is chaired by the Treasurer of State, establishes policies and oversees the Program. Participants have a variety of investment options to choose from. Earnings on the investments are exempt from income taxes if used for qualified educational expenses when withdrawn. Although administered by the State Treasurer, participant enrollment, investment management, and participant support is provided by third party contractors.

Revenue Sources and Relationships

The Program originally was funded with advances from the General Fund. The Program receives Other Funds from an annual assessment on plan assets of 10 basis points (0.10 percent). It also will receive $350,000 annually from a contract service provider for marketing, auditing, and other board-related expenses. During the 2001-03 biennium, the Program had grown in size to the point that the annual assessment was sufficient to cover the Treasurer's cost to administer it. At the time the budget was developed, it projected Program revenue of $685,000. The Program expects to repay the General Fund advances ($273,000) by the end of calendar year 2005.

Budget Environment

The Program was initiated during the 1999-01 biennium and has 16,000 participant accounts amounting to $62 million. The Treasurer expects the Program to continue to grow during the 2003-05 biennium.

Governor's Budget

The Governor's budget continues actions taken by the Emergency Board to increase staffing to two full time positions and increased expenditure authority in response to additional activities conducted by the Program's Board.

Commission for Women – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	127,450	141,508	137,686	171,339
Other Funds	60,205	79,408	797,781	149,374
Federal Funds	1,400	0	0	0
Total	**189,055**	**220,916**	**935,467**	**320,713**
FTE	1.00	1.00	2.80	1.26

Program Description

The Commission for Women was established by statute in 1983 to work toward economic, social, legal, and political equality for women in Oregon. The Commission does this by identifying, analyzing, monitoring, and evaluating legal and other issues confronting women, by sponsoring forums on women's issues, and by engaging in legislative advocacy. During the 2001-03 biennium, the Commission began administering the AmeriCorps Communities in Partnership to Stop Violence Against Women and Children program.

Revenue Sources and Relationships

The Commission has no dedicated source of Other Funds, and generates Other Funds revenue through grants, contracts, and publication sales, and from its annual Women of Achievement dinner. These funds help the Commission conduct educational forums and special studies, produce publications, and otherwise carry out its mandated functions. During the 2001-03 biennium, the agency will receive Other Funds of approximately $10,086 from grants to sponsor seminars on menopause and related health issues, approximately $36,000 from hosting the annual Women of Achievement Dinner ($24,000 will cover the costs associated with the dinner and the remaining $12,000 will be available for other agency expenses), and approximately $18,000 from grants to publish its newsletter, Women and Finance Seminars, and its *Women and the Law* book. Starting in 2001, the Commission also received funding from a federal AmeriCorps grant to administer the Communities in Partnership to Stop Violence Against Women and Children program. This program provides attorneys, paralegals, educators, and advocates to assist domestic violence victims. Because the grant monies are passed through the budget of the Oregon Housing and Community Services Department, they are received as Other Funds. The current grant, which expires in September 2003, will provide approximately $650,000 during the 2001-03 biennium and approximately $63,000 in 2003-05.

Budget Environment

The agency's general operating expenses are primarily supported by the General Fund. The budget approved during the regular 2001 legislative session provided sufficient General Fund to allow the Commission to operate at its then current service level. The bulk of the Commission's General Fund is used to pay the salary and benefits of the agency's one employee, and to pay state government service charges. The Legislature has for several biennia worked to provide incentives for the Commission to raise private donations and grants. In 2001, the Legislature directed the Department of Administrative Services to unschedule $10,000 of the General Fund appropriation, with the funds to be rescheduled only as a dollar-for-dollar match to donation, grant, or sales income. The Commission is projected to raise over $64,000 in donations and sales income, however, and all of the $10,000 of General Fund has been rescheduled.

The Commission's General Fund revenue has been reduced since the 2001 regular session. During the 2001-03 legislative interim, the Legislature reduced General Fund support (including underfunding of salary adjustment costs) by $9,451 (or 6.4%) as part of its overall effort to rebalance the state budget. The Governor further reduced this appropriation by $1,666 (or 1.1%) through an allotment reduction to prevent a deficit. This leaves a total General Fund reduction of 7.6%. At this level of reduction, the Commission will still be able to retain its Executive Director on a full-time basis for the entire biennium. It is the only one of the four advocacy commissions able to do so, and it is so able because the Commission's successful fund-raising efforts provide sufficient revenue.

Governor's Budget

The Governor's budget supports ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction are restored. General Fund support is increased from the prior biennium level to finance compensation cost increases for the Executive Director, and inflation in services and supply costs and state government service charges. The budget also includes $22,293 of Other Funds expenditure limitation, and two limited-duration positions (0.26 FTE), to accommodate a grant to administer the Communities in Partnership to Stop Violence Against Women and Children program through the current grant's September 2003 end date. If the Commission is successful in renewing the grant, it would then request ongoing expenditure limitation and position authority for the period beyond September 2003 from the Emergency Board.

LEGISLATIVE BRANCH

Legislative Branch (LEG) – Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended*
General Fund	53,634,283	59,669,116	55,939,266	55,604,555
Other Funds	2,581,907	3,057,366	5,794,261	3,612,914
Nonlimited	1,729,441	2,212,596	2,212,596	1,656,713
Total	**57,945,631**	**64,939,078**	**63,946,123**	**60,874,182**
FTE	416.69	417.63	417.63	422.38

** Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). The 2003-05 Governor's recommended budget, while making no specific recommendations, funds the Legislative Branch at approximately the 2001-03 legislatively approved budget amount. The net effect is an $18,788,720 reduction to the Legislative Branch General Fund budget request. All of the reductions are being taken from the Legislative Administration Committee budget. This reduction amount captures $12,140 in savings gained from elimination of four Legislative Administration positions (0.88 FTE) from the 2002 second special session; effectively eliminates $9,432,465 in Legislative Branch policy packages (14 in Legislative Administration and 2 in Legislative Counsel); and then reduces the amount necessary for the Legislative Branch to continue all current activities in 2003-05 by $9,344,115 or approximately 14.4%.*

The Legislative Branch includes members of the Legislative Assembly and their employees, the costs of four statutory committees or offices, and the Commission on Indian Services. The statutory committees, which provide either administrative and operations support or specialized analysis, include: 1) the Legislative Administration Committee; 2) the Legislative Counsel Committee; 3) the Legislative Fiscal Office; and 4) the Legislative Revenue Office.

LEG – Legislative Assembly

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request
General Fund	23,506,545	25,968,772	24,861,180	28,126,098
Other Funds	186,470	193,102	193,102	199,835
Nonlimited	90,623	86,789	86,789	89,827
Total	**23,783,638**	**26,248,663**	**25,141,071**	**28,415,760**
FTE	225.22	223.62	223.62	223.62

Program Description

The Legislative Assembly budget includes salaries and per diem for legislative members and their staffs; the leadership and caucus offices; the Chief Clerk of the House; the Senate of the Secretary; session staff; and Senate Executive Appointments.

Revenue Sources and Relationships

The General Fund supports 99% of the Legislative Assembly's activities. Other Funds revenue subject to expenditure limitation comes from reimbursements for duplicating services. The Nonlimited Other Funds are from the Lounge Revolving Fund, which receives payments from legislative members for food services. The Fund is used to pay for food in the members' lounges.

Budget Environment

Except for Executive Appointments, the Legislative Assembly budget is divided to reflect session and interim activities--as well as House and Senate costs. A significant cost driver for the Assembly's budget is the length of the legislative session. Although the legislative session covers approximately 25% of the budget period, it accounts for 40% of costs, primarily due to member per diem payments and session-only staff salaries. Interim costs are driven by the number of interim committees and the number of times the committees meet.

The primary responsibility of the Legislative Assembly is to produce a balanced budget that complies with state and federal laws and represents the policy choices and priorities established by the Legislature on behalf of the citizens they represent.

The agency's 2001-03 General Fund budget was reduced by $3,593,068 General Fund based on special session actions during the interim. Specifically, $2,008,260 was based on actions taken during the second 2002 special session; $404,734 during the 2002 third special session; and $931,964 during the 2002 fifth special session. The agency received an additional $713,366 during the 2002 third special session for partial funding of salary and benefit increases, $248,110 less than needed to fully fund those increases. The $3.6 million in total reductions were one-time in nature and required delays in computer purchases, temporary roll-back of member salaries, reductions to member travel reimbursements, and reductions to the operating budgets for leadership offices.

Governor's Budget

The agency request General Fund budget funds the Legislative Assembly at 8.3% above the 2001-03 legislatively adopted budget. The requested amount funds the current activities of the Assembly.

If the Governor's $18.8 million reduction to Legislative Administration's budget had been pro-rated among all legislative agencies, the Legislative Assembly's request budget would need to be reduced by $4,045,724.

LEG – Legislative Administration Committee

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request*
General Fund	19,680,572	22,258,634	19,506,384	32,840,850
Other Funds	2,214,027	2,351,984	4,964,598	1,948,509
Nonlimited	0	730,072	730,072	735,880
Total	**21,894,599**	**25,340,690**	**25,201,054**	**35,525,239**
FTE	118.97	118.51	118.51	123.26

** The Governor's budget included $14,052,130 General Fund for the Legislative Administration Committee—a reduction of $18,788,720 from the agency request. The reduction consisted of a 14.4% reduction to the amount needed for the entire Legislative Branch to continue all current activities ($9,344,115) plus the value of the policy option packages in the Legislative Administration and Legislative Counsel budgets ($9,061,690 and $370,775 respectively). Additionally, the Governor reduced $12,140 General Fund and 0.88 FTE based on actions taken in the 2002 third special session that eliminated 4 positions and shifted the budgeted salary funds to temporary appointments.*

Program Description

The Legislative Administration Committee (LAC) provides central support services to the Legislative Assembly and Legislative Branch agencies. Services include: 1) substantive committee staffing; 2) information systems and technology support; 3) building operations and maintenance for the State Capitol; 4) accounting, payroll and personnel functions; and 5) public information.

Revenue Sources and Relationships

The General Fund supports 92% of LAC's requested expenditures. Other Funds revenue is derived from Capitol Building office space rent, parking fees, and sales of services and supplies. Traditionally, LAC adopts the same rental rate for occupants of the Capitol as the rate imposed by the Department of Administrative Services for occupants of other state buildings. For 2003-05 the rate increases from $1.11 cents per square foot for office space to $1.33 per square foot—a 19.8% increase. Parking fee and rental revenue goes into the State Capitol Operating Account and is used to partially cover expenses incurred in operating, maintaining, protecting, and insuring the Capitol. A nonlimited Stores Revolving Account accommodates revenue from retail sales in the Capitol Gift Shop.

Budget Environment

Significant factors affecting LAC costs are the demand for increased security; improved information systems; maintenance and repair of the Capitol; and meeting the needs of legislative committees. The length of legislative sessions and the number of bill introductions, amendments, and committee hearings also affect the agency's workload and costs.

The Legislative Branch is engaged in a major technology transition program to replace existing mainframe application systems with new graphical systems based on current technology. The transition consists of 22 projects to be completed over several years. The projects planned for 1999-01 and 2001-03 have been completed. The projects planned for 2003-05 should complete the transition. One goal is to have systems that share a common database. During 2001-03, the majority of core legislative business systems (publications, measure tracking, executive appointments, docketing systems, and Legislative Counsel's indexing, amendment, and repeals/measure conflicts tracking systems) were migrated. Project plans for the 2003-05 biennium include development of a new bill drafting system; improved access to legislative publications on the web; and maintenance of projects released in the prior two biennia. As a result of this focus, the Information Systems unit has become the largest component of the LAC budget.

A major cost driver for LAC is also maintenance and repair of the Capitol. Several large projects have been completed over the past three biennia. They include re-roofing, replacing aging wiring and transformers, and upgrading elevators to meet building code requirements. In 2003-05, LAC plans to upgrade the infrastructure of the two wings of the Capitol.

Due to recent terrorist actions, the cost of maintaining security at the Capitol has increased. Initial improvements were funded unobligated Other Funds revenues in the State Capitol Operating Account. There is interest in establishing two new positions to continue Capitol guard services.

The agency's 2001-03 General Fund budget was reduced by $3,664,774 General Fund based on special session actions during the interim. Specifically, $1,704,761 was reduced during the 2002 second special session; $665,237 during the third special session; and $1,134,607 during the fifth special session. The agency's budget received an additional $460,519 during the 2002 third special session for partial funding of salary and benefit increases, $160,169 less than needed to fully fund those increases. The $3.7 million in total reductions were one-time in nature and required delayed filling of vacant positions, reductions in debt service payments, deferral of computer system maintenance projects, training reductions, and delayed supply/equipment purchases.

In January 2003, the Emergency Board allocated $291,836 to partially restore funding for six committee administrators and five committee assistants and to increase Other Funds expenditure authority, so that revenue from facility rental and publication sales could be used to fund custodial staff and a building coordinator.

Governor's Budget

The agency request General Fund budget funds Legislative Administration at 47.5% ($10.6 million) above the 2001-03 legislatively adopted budget. As noted earlier, the Governor's budget did not cover the entire Legislative Administration Committee request. In addition to eliminating $9,061,690 for policy option packages, the Governor reduced another $9,714,890 from the entire Legislative Branch, all of which was taken from the LAC budget. If this reduction had been pro-rated among the legislative agencies, LAC's share (above its policy packages) would have been $3,420,450.

The agency request included 14 General Fund policy option packages totaling $9.1 million and one $60,000 Other Funds package. The Other Funds package is included in the Governor's recommended budget. The packages (in priority order) would allow LAC to:

- Establish two positions (1.5 FTE) to monitor recently installed video coverage and provide funds to continue two contract security guards (183,984).
- Replace existing mainframe system with graphical systems to complete the Technology Transition Project ($2,299,010).
- Comply with software licensing requirements and cover fees for on-going software upgrades ($329,382).
- Establish an Information System Specialist 8 (senior developer) position (1.0 FTE) and a Media Supervisor position (1.0 FTE) to address workload issues ($98,128). The remaining costs of this action are funded by a $160,901 reduction in funds budgeted for professional services.
- Replace an apprentice with a journeyman electrician to reduce reliance on contract services ($51,052).
- Establish one additional permanent Committee Services Administrative Support position (1.0 FTE) to replace a limited duration employee ($82,611).
- Upgrade network software and improve systems infrastructure ($354,664).
- Replace computer room ceiling, fire suppression system, and air conditioning system and purchase network connection equipment necessary to complete the wings renovation project ($698,882).
- Upgrade network security and disaster recovery systems ($492,000).
- Establish a session media assistant position (0.25 FTE), replace outdated video equipment, and purchase back-up equipment for critical systems ($375,520).
- Replace audio and video recording and archiving equipment ($456,000).
- Purchase a new FAX server system, develop a public access measure tracking system, and develop a new electronic commerce application for Legislative Counsel ($316,225).

- Develop a new chamber automation system, purchase and install wireless laptops for members, develop software applications, and provide technical assistance to members ($824,232).
- Improve pedestrian and Capitol safety through improved crosswalks and vehicular barricades ($2.5 million).
- Replace carpet in the Governor's second floor suite ($60,000 Other Funds).

LEG – Legislative Counsel Committee

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request*
General Fund	5,428,515	5,836,547	5,939,051	7,155,520
Other Funds	179,174	506,494	630,775	724,288
Nonlimited	1,638,818	1,395,735	1,395,735	1,565,300
Total	**7,246,507**	**7,738,776**	**7,965,561**	**9,445,108**
FTE	47.50	50.50	50.50	50.50

Program Description

Legislative Counsel (LC) staff drafts legislation for legislators, legislative committees, and state agencies. LC also provides research services and legal advice to legislators and legislative committees. The Office of the Legislative Counsel prepares indexes and tables for all measures introduced during a legislative session and, following each session, publishes the session laws (*Oregon Laws*). Every two years, the Office publishes *Oregon Revised Statutes (ORS)*, which are the official codification of Oregon's statute laws. LC also conducts a review of all new administrative rules adopted by state agencies to determine if they are consistent with the agency's 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. Increasingly, legislative priorities have not left time and resources for the Legislative Counsel to devote to the Commission. At its April 2000 meeting, the Emergency Board allocated $100,000 from the Emergency Fund to purchase outside services to supplement those provided by the Legislative Counsel. This amount funded added services for the last half of the 1999-01 biennium. The Commission selected a proposal by Willamette University whereby its College of Law houses and shares the cost of an Executive Director and related support services for the Commission. In the 2003-05 budget, $212,995 General Fund is budgeted to continue this service.

Revenue Sources and Relationships

The General Fund supports 75% of LC's expenditures. Other Funds are derived from sales of the *Oregon Revised Statutes*, *Oregon Laws*, bill drafting services, and other LC publications. In 2001-03, Other Funds receipts are estimated at $1,759,065. To cover the costs of providing these publications, LC plans to increase the volume/set charges for 2003-05. As a result, Other Funds receipts are expected to increase to $2,003,400 or by about 14%.

A small portion of the publication sales income is expended as limited Other Funds and used to defray that part of the agency's General Program expenses that are related to *ORS* publication editing. The balance of the publication sales income is expended as nonlimited within the *ORS* Publications Program.

During 2001-03, LC began utilizing its statutory authority to charge state agencies and other entities for drafting legislation. The concept was discussed during 2001 budget hearings, and LC was encouraged to develop a plan for implementing drafting charges. In November 2002, the Emergency Board approved a $75,000 Other Funds expenditure limitation increase, so LC could spend the newly generated revenue, and expressed a desire for the Joint Committee on Ways and Means to fully discuss fiscal policies surrounding the amount of Other Funds revenue generated and how it is used when it reviews and adopts a 2003-05 biennial budget for the agency. During 2001-03, the bill drafting services income is being expended as limited Other Funds and primarily used to cover the costs of providing the services. In 2003-05, LC expects to receive approximately $117,000 Other Funds from bill drafting services.

Budget Environment

The number of bills and amendments being drafted fluctuates from session to session, but overall the trends are fairly flat. During the last three regular sessions, 4,240 to 4,385 bill drafts were requested and 5,133 to 5,894 amendments were prepared. When workload increases, it creates additional pressure on Counsel staff, which ripples throughout the institution as these bills are drafted, introduced, amended, and finalized.

During the 1997-99 biennia, the agency experienced several staff changes and had to deal with the loss of years of institutional memory and bill drafting experience. This increased the need for staff orientation and training during the last two biennia. The agency is interested in reclassifying several of its positions in an effort to retain existing experienced staff and avoid training and recruitment costs.

Three new attorney positions (3 FTE) were established by the 2001 Legislature to end the long-time practice of double filling existing positions. No funding was added, since the cost of double filling positions was already incorporated in the budget. The agency does not anticipate the need to request any additional staff for the next biennia.

During legislative sessions, the agency hires temporary employees that serve primarily as copy editors for staff attorneys and to assist with workload issues. However, the agency has worked to reduce its reliance on temporary staff over the last several biennia.

Publication sales have declined in recent biennia, in part, due to their availability on CD-ROM format. The publications are also now available on the Internet. If publication sales and Other Funds receipts decline, additional General Fund support may be needed for ORS publication. A private company has also proposed law changes that would allow it to take over certain responsibilities related to the annotation, indexing, publishing, and selling of ORS revisions each biennium. This policy change has both advantages and disadvantages that require further discussion in the next regular session.

The agency's 2001-03 General Fund budget was reduced by $178,409 General Fund based on special session actions during the interim. Specifically, $116,983 was reduced based on actions taken during the 2002 second special session. The agency received $176,612 during the 2002 third special session for partial funding of employee salary and benefit increases, $61,426 less than needed to fully fund those increases. The $178,409 total reduction was one-time in nature and required delays in computer purchases, reduced computer support services, reduced employee training, and delayed filling of vacant positions. In November 2002, the Other Funds expenditure limitation was increased $74,999 by the Emergency Board so that revenue derived from bill drafting services could be used to cover associated costs. In January 2003, $42,875 was appropriated, partially restoring the second special session reduction, so that 25 replacement personal computers could be purchased.

Governor's Budget

The agency request General Fund budget funds the Legislative Counsel's office at 22.6% ($1.3 million) above the 2001-03 legislatively adopted budget. The request budget includes three policy packages. The first package requests $122,970 General Fund to reclassify 7 positions upward. The second package requests $247,805 General Fund to replace printers and personal computers, and to purchase and maintain additional research resources; cover costs of consumable supplies previously paid for by Legislative Administration; shift all Capitol space rental to General Fund; and add Attorney General costs to General Program. The third package requests a $116,982 Other Funds expenditure limitation increase so the agency can utilize revenue derived from charging agencies for bill drafting services to cover the costs of providing the services. The Governor's printed budget reduces the Other Funds limitation by $1 and shifts $595,943 Non-Limited Other Funds and 14 positions (5.33 FTE) to limited Other Funds. If the Governor's reduction to Legislative Administration's budget had been pro-rated among all legislative agencies, Legislative Counsel's share would have been $1,346,709 General Fund ($370,775 in packages and $975,934 out of its budget to fund all current activities).

LEG – Legislative Fiscal Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request
General Fund	3,346,879	3,855,839	3,870,026	4,330,526
FTE	17.00	17.00	17.00	17.00

Program Description

The Legislative Fiscal Office is a non-partisan legislative service agency created by statute in 1959. The Office researches, analyzes, and makes recommendations concerning state expenditures, financial affairs, program administration, and agency organization. The Office reports to the Joint Committee on Ways and Means during legislative sessions and to the Emergency Board during the interim between sessions. The Office determines the fiscal impact of all legislative measures and, when applicable, publishes fiscal impact statements that accompany bills through the legislative process. The Office provides staff support for the Joint Legislative Committee on Information Management and Technology (JLCIMT), including budget analysis and non-technical policy recommendations concerning state agency information systems projects. During the interim, the Office also conducts reviews and performance audits of selected programs for the Joint Legislative Audit Committee and provides staff support for special interim committees.

Budget Environment

As with other committee staffs, the work of the Legislative Fiscal Office changes focus between legislative sessions and the interim between sessions. During sessions, budget analysis and the number of bill introductions and amendments creates the workload for the agency. The Office reviews all measures to determine if they have a fiscal impact. The continuous increase in bills and amendments requires the staff to write more fiscal impact statements. During approximately six months of the 2001 Legislative Session, LFO analysts reviewed over 4,900 bills to determine their fiscal impact. They researched and wrote fiscal impact statements on 1,233 bills—an average of 206 per month.

During the interim, workload is driven by the number, length, and complexity of special sessions necessary to rebalance the statewide budget, the number and complexity of Emergency Board requests; the number of meetings and issues before the JLCIMT and special interim budget committees; and the number and depth of performance audits or program evaluations required by the Joint Legislative Audit Committee. The turnover in members continues to cause the Office to spend a significant amount of time educating members and their staffs about the budget process.

The agency's 2001-03 General Fund budget was reduced by $109,046 General Fund based on special session actions during the interim. Specifically, $77,246 was reduced based on actions taken during the 2002 second special session. The agency received $91,433 during the 2002 third special session for partial funding of employee salary and benefit increases, $31,800 less than needed to fully fund those increases. The $109,046 total reduction was one-time in nature and required the agency to delay hiring of two analysts and reduce services and supplies expenditures.

Governor's Budget

The agency request General Fund budget funds the office at 12.3% above the 2001-03 legislatively adopted budget. The request budget provides for continuation of the current level of agency operation. The requested amount fully phases in a revised classification plan for LFO staff approved by the 2001 Legislature that more accurately fit compensation levels with responsibilities and achieve greater equity among positions within the Legislative Branch. The budget also phases out the cost to contract for a study of how to improve economic development in Oregon. Standard inflation factors were used for services and supplies and contracted services. The uniform rate charged by the Legislative Administration Committee to occupants of the Capitol was used to compute rent charges, which increased 19.8%. State Government Services Charges increased 11.8%, primarily due to increases in DAS assessments, workers compensation assessments, and Secretary of State Audits Division charges. If the Governor's reduction to Legislative Administration's budget had been pro-rated among all legislative agencies, LFO's cut would be $622,913.

LEG – Legislative Revenue Office

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request
General Fund	1,357,235	1,422,986	1,445,855	1,581,024
Total	**1,357,235**	**1,422,986**	**1,445,855**	**1,581,024**
FTE	6.00	6.00	6.00	6.00

Program Description

The Legislative Revenue Office (LRO) provides staff assistance to the House and Senate Revenue Committees during legislative sessions and the interim between sessions. The Office was established in 1975 to provide non-partisan analysis of tax and school-finance issues. The Office writes revenue impact statements on bills affecting state or local revenue, and researches tax and school-finance issues for legislators and legislative committees.

Budget Environment

As with other committee staffs, the number of bill introductions and amendments create the workload for the agency during session. The continuous increase in bills and amendments, along with tax-related voter

initiatives and legislative referrals, requires the staff to write more revenue impact statements. The number of Revenue and School Finance Committee meetings determines the interim workload.

The agency's 2001-03 General Fund budget was reduced by $20,227 General Fund based on special session actions during the interim. Specifically, $29,106 was reduced based on actions taken during the 2002 second special session. The agency received $31,975 during the 2002 third special session for partial funding of employee salary and benefit increases, $11,121 less than needed to fully fund those increases and also received $20,000 to coordinate a tax review task force. The $20,227 total reduction was one-time in nature and required the agency to postpone certain projects, reduce employee training, and reduce services and supplies expenditures.

Governor's Budget

The agency request budget funds current activities of the Legislative Revenue Office. The budget is 11% above the 2001-03 legislatively adopted budget primarily due to the net effect of position-related costs and rent cost increases, offset by phase-out of funding for the Oregon Tax Incidence Project.

If the Governor's reduction to Legislative Administration's budget had been pro-rated among all legislative agencies, LRO's reduction would be $227,418.

LEG – Commission on Indian Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Agency Request
General Fund	314,537	326,338	316,770	359,257
Other Funds	2,236	5,786	5,786	5,989
Total	**316,773**	**332,124**	**322,556**	**365,246**
FTE	2.00	2.00	2.00	2.00

Program Description

The Commission on Indian Services compiles information on services available to Indians, assesses state programs and services, serves as a forum for considering Indian problems, and advises on matters relating to the preservation and protection of Indian historic and archaeological resources. The Commission, created in 1975, has 13 members appointed by the President of the Senate and Speaker of the House of Representatives for two-year terms. In addition to one senator and one state representative, each of Oregon's nine federally recognized tribal groups is entitled to one member. The remaining two members are from the Portland area and Willamette Valley Indian communities.

Revenue Sources and Relationships

The Other Funds revenue represents registration and other fees derived from sponsorship of special meetings. The funds are used on to cover costs associated with the events.

Budget Environment

Staff salaries and Commission member travel are the primary costs in this budget. The Commission holds regular quarterly meetings, as well as special meetings at the call of the Chair. Various statutes require that the Commission be consulted on matters related to the preservation and protection of Indian fish, wildlife, historic, and archaeological resources.

The Commission reports that governmental and non-governmental entities are increasingly relying on the Commission for technical and coordination services and that the volume of phone and mail transactions is increasing. The Commission is currently soliciting, reviewing, and distributing reports from 30 state agencies on interactions with Tribes in 2002. 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.

The Commission's 2001-03 General Fund budget was reduced by a total of $21,475 General Fund based on special session actions during the interim. Specifically, $6,527 was reduced based on actions taken during the 2002 second special session and $11,875 will be reduced based on 2002 fifth special session actions. The agency received $8,834 during the 2002 third special session for partial funding of employee salary and benefit increases, $3,073 less than needed to fully fund those increases. The $21,475 total reduction was one-time in nature and required the agency to delay filling an executive assistant position that was vacant due to a retirement and reduce services and supplies expenditures for postage, printing, travel, and equipment maintenance.

Governor's Budget

The agency request budget funds the current levels of Commission activities. If the Governor's reduction to Legislative Administration's budget had been pro-rated among all legislative agencies, the Commission's cut would be $51,676.

JUDICIAL BRANCH

Council on Court Procedures – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	87,469	90,340	88,136	103,396
Other Funds	8,000	8,000	8,000	8,000
Total	**95,469**	**98,340**	**96,136**	**111,396**
FTE	0.71	0.71	0.71	0.71

Program Description

The Council on Court Procedures is responsible for reviewing and amending the Oregon Rules of Civil Procedure (ORCP). The Council relieves legislative committees of the need to meet to consider technical changes in civil procedure, while enabling the Legislature to consider and act on the recommendations from Council deliberations. The 23-member Council consists of judges, attorneys and a public member. The Council meets at least 6 days during the interim to consider revisions to civil procedure law, and to draft a report. At the beginning of each legislative session, the Council submits the report to the Legislative Assembly. The report contains recommendations on any necessary statutory changes.

Revenue Sources and Relationships

The General Fund is the primary source of support for the Council. The 1993 Legislature changed the funding for the Council to include up to $8,000 Other Funds for Council members' travel reimbursements.

Budget Environment

The Council is staffed by a 0.21 FTE Executive Director, who is a law professor with the University of Oregon, and a 0.5 FTE Executive Assistant. In addition to staffing costs, the budget provides for a minimal level of office expenses and state government service charges. The University of Oregon provides workspace and some office expenses for the Council. The Oregon State Bar provides a conference room for the Council's meetings and reimburses the Council up to $8,000 for travel expenditures of members.

Legislative actions during 2001-03 through the 2002 third special session resulted in an increase to the Council's budget by a total of $1,100 General Fund; a $7,067 increase for cost-of-living adjustments, and a $5,967 across-the-board reduction. The Council's budget was further reduced during the 2002 fifth special session in the amount of $3,304 General Fund. The Council estimates they will be able to absorb the across-the-board reduction with savings accrued from using a temporary employee as the Executive Assistant.

Governor's Budget

The Governor's budget reflects a 15.9% increase from the 2001-03 legislatively approved budget which is largely attributable to rate adjustments for PERS, flexible benefits, and state government service charges. Given the relatively small size of this agency's budget, the special session reductions from 2001-03 were not incorporated into the 2003-05 balanced budget. The 2002 fifth special session reduction would be the equivalent of a $15,859 biennial reduction in 2003-05.

Oregon Judicial Department (OJD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	360,249,206	406,877,224	371,264,080	238,277,723
Other Funds	7,374,728	19,709,047	21,065,552	22,756,426
Federal Funds	599,100	871,495	2,105,926	1,556,977
Nonlimited	0	0	0	5,949,864
Total	**368,223,034**	**427,457,766**	**394,435,558**	**268,540,990**
FTE	1769.23	1824.24	1767.99	1604.47

Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). However, recent Governor's budgets, including the 2003-05 Governor's recommended budget, while making no specific recommendations, have provided for a funding level commensurate with funding for Executive Branch agencies. The 2003-05 Governor's budget reflects the roll-up costs for the 2002 fifth special session reductions and does not include funding for the Chief Justice's budget request as outlined below.

Note: The 2001-03 legislatively approved budget includes the January 2003 Emergency Fund allocation of $5 million for indigent defense services.

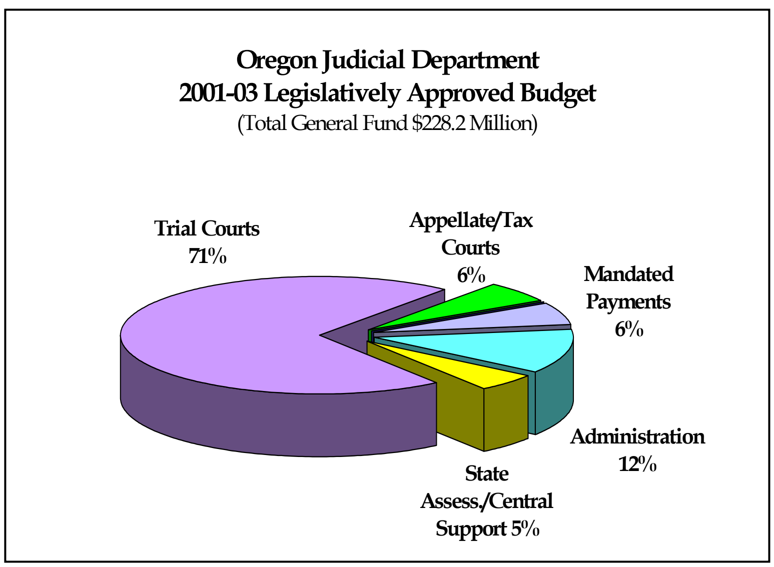
Oregon Judicial Department (OJD) – Agency Totals Without Indigent Defense

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended
General Fund	219,156,597	241,384,904	228,233,703	298,377,126
Other Funds	7,272,046	18,706,459	20,062,964	22,756,426
Federal Funds	599,100	871,495	2,105,926	1,556,977
Nonlimited	0	0	0	5,949,864
Total	**227,027,743**	**260,962,858**	**250,402,593**	**328,640,393**
FTE	1749.02	1802.42	1746.17	1965.66

The Indigent Defense program is responsible for providing legal counsel to indigent persons at the trial court level. This program is transferred to the Public Defense Services Commission in the 2003-05 biennium. In order to accurately reflect changes to the Judicial Department budget over time, the table above excludes all indigent defense expenditures, including administrative and support services.

The Judicial Department includes:

- ***Appellate Courts***, which are the Supreme Court, Court of Appeals, Tax Court, and legal support cost.
- ***Administration and Support Services***, that includes the Office of the State Court Administrator, information systems management, and fiscal and human resources management.
- ***Trial Courts***, which are the courts of general jurisdiction. District courts were abolished effective January 15, 1998 and circuit courts assumed jurisdiction for all state trial court functions.
- ***Mandated Payments***, that includes the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.



Indigent Defense Services, with responsibility for providing legal counsel to indigent persons at the trial court level, is transferred to the Public Defense Services Commission in the 2003-05 biennium.

Revenue Sources and Relationships

Based on the March 2003 revenue forecast, overall 2001-03 court revenue projections are expected to increase by about 8% over 1999-01 (from $162 million to $176 million). The increase is due, in large part, to the additional resources approved for Multnomah County Circuit Court to address a collections backlog, and to new revenue resulting from fees required by Chapter 823, Oregon Laws 2001 (SB 70). This law also created the Judicial Department Collections Account, effective September 2, 2001. Monies collected by the courts are deposited to the account and provide for reimbursement of actual costs and expenses of the OJD collections program, including personnel expenses incurred in the administration and collection of accounts. Collections costs, including credit card fees and collection fees paid to the Department of Revenue and third-party collection agencies, are estimated at $13.6 million for the 2001-03 biennium. As of December 31, 2002, $9.9 million had been withheld from revenue distributions for recovery of collection costs. Actual costs totaled $9.2 million. The balance provides the necessary operating capital to meet monthly expenses.

Based on the March 2003 revenue forecast, OJD estimates court collections totaling $157 million for the 2003-05 biennium, based on current law and the Governor's budget. The OJD revenue projections are reduced from prior forecasts of $187 million, which is a decrease of $30 million. Revised projections include the estimated impact of funding reductions in the Governor's 2003-05 balanced budget for OJD. Of the projected $157 million, $140 million will be transferred to the General Fund and to other state agencies, cities, and counties. The remainder (approximately $17 million) will be retained by OJD to fund revenue administration and collection costs, including credit card fees and amounts paid to the Department of Revenue and private collection agencies for collection of delinquent debt. Compensatory fines and restitution are also collected by the courts and distributed to individual victims. Because these are trust funds, they are not accounted for in the Department budget.

Other sources of operating Other Funds revenue include: the sale and distribution of court publications ($1.8 million), fees charged for public access to the Oregon Judicial Information Network ($2.4 million), State Law Library fees ($1.5 million), fees charged for the interpreter and shorthand reporter certification programs ($.3 million), and grants from the Department of Human Services for the Citizen Review Board ($.7 million). Federal Funds of $1.6 million support assessments of state foster care and adoption laws and judicial processes ($.3 million) and drug courts in Marion, Malheur, and Benton counties ($1.3 million).

Budget Environment

Excluding indigent defense reductions, OJD had a 2001-03 budget reduction of $13,151,201 net General Fund, based on special session actions during the interim. The agency received an additional $8,468,779 General Fund and $1,078,130 Other and Federal Funds limitation for partial funding of employee salary and benefit increases. This was $1,874,266 General Fund less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions and reduce programs and services.

The 2001 Legislature established six additional judicial positions to support caseload increases, and provided funding for salary increases for elected positions, including judges. The Legislature subsequently deferred the effective date for three of the six of judgeships, from January 1, 2003 to June 30, 2003, and used the savings from the deferred cost for the 2001-03 budget shortfall. In the third 2002 special legislative session, the legislature eliminated the second-year salary adjustment for all elected officials except judges. However, the legislature did not provide any additional funding for the second-year judicial salary adjustment and required the Judicial Department to use existing resources to fund the $1.2 million cost in the 2001-03 biennium and the $2.4 million cost for subsequent biennia. OJD has questioned whether the legislative intent was for permanent under-funding of this judicial salary increase.

The Department had several budget notes, including:

- Establish an intergovernmental agreement with the Public Defense Services Commission to provide staff support during the interim and to prepare for the transition of the Indigent Defense Services Division to the Commission on 10/1/03. The Department was given a $250,000 General Fund appropriation for this activity.
- Report to the Emergency Board in July 2002 and January 2003 on the revenue in the Collections Account and Multnomah delinquent collections, and to review the current statutory fines structure in conjunction with the Joint Interim Judiciary Committee.
- Develop a permanent plan for the staffing not directly required for the new judicial positions.

- Convene a work group to conduct a comprehensive evaluation of judicial benefits and develop a long-term solution to retirement and benefits issues.
- Work with other public safety agencies on the comprehensive integration of public safety data into the Criminal Justice Information System (CJIS).
- Defer expenditure of 15% of the base technology budget until the public safety agencies present a CJIS plan to the Joint Legislative Committee on Information Management and Technology.
- Purchase new and replacement personal computers through the consolidated state purchasing system, to reduce purchase costs.
- Match up to $50,000 of Multnomah County funds, out of the operating funds of the Multnomah Circuit Court, to fund the childcare pilot project.

The 2001 Legislature established two Emergency Board special purpose appropriations:
- $275,000 for insurance benefits for Plan B judges, contingent on submission of the long-term retirement and benefits plan required by budget note. The Department convened a work group and submitted the required report, but funding was deferred pending 2003 legislative action on the Public Employees Retirement System; and
- $369,842 for pro tem judges and staff, contingent on submission of the staffing plan required by budget note. Half of this amount was deleted at the second 2002 special legislative session to reflect the deferral of three new judgeships to June 30, 2003. At its November 2002 meeting, the Emergency Board allocated $178,239 of this appropriation for staffing for the new judgeships that became effective January 1, 2003.

Governor's Budget

Excluding all costs associated with the transfer of the indigent defense program, the Governor's budget is an increase of $10 million General Fund from the 2001-03 legislatively approved budget through the fifth 2002 special legislative session. OJD has questioned whether legislative intent was for a full biennial roll-up of the fifth 2002 HB 5100 reductions. The Governor's budget is a reduction of $3.1 million from the 2001-03 close of session legislatively adopted budget, and full time equivalent positions are reduced by 141.7 FTE, from 1,746.17 FTE to 1,604.47 FTE.

The Chief Justice's 2003-05 operating level budget includes the roll-up cost for new judgeships, plus standard adjustments for inflation and personnel costs. Excluding indigent defense costs, and inflation and merit increases, the Chief Justice's operating level budget is $258.6 million General Fund. The Governor's budget is $238.3 million General Fund, which is $20.4 million below the Chief Justice's operating level.

The Chief Justice's 2003-05 recommended General Fund budget is $298.4 million, which is $60.1 million above the Governor's budget of $238.3 million General Fund. Differences include the $20.4 million in reductions to the Chief Justice operating level adjustments, plus the Governor's unspecified budget reduction of $11.7 million General Fund. The Governor's budget, while making no specific recommendations, does not provide funding for any of the Chief Justice's General Fund budget packages, which include:
- $6 million General Fund and 61.19 FTE to restore special session reductions;
- $6 million General Fund and 61.73 FTE for workload growth;
- $2.8 million General Fund and 19.79 FTE for continuing implementation of family law and drug courts;
- $2.9 million General Fund for technical equipment;
- $7.4 million General Fund for cost of living adjustment and health benefit cost increases;
- $2 million General Fund and 3 FTE for new judgeship staffing;
- $1 million General Fund to restore juror per diem expenses; and
- $1.8 million for several other packages including judicial retirement and health plan benefits, furniture and facility needs, and stalking legislation changes.

OJD – Admin and Appellate

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	49,616,018	56,516,624	52,508,469	56,654,936
Other Funds	5,952,714	9,410,330	9,879,371	9,514,935
Federal Funds	272,183	677,737	677,737	306,977
Nonlimited	0	0	0	5,699,864
Total	**55,840,915**	**66,604,691**	**63,065,577**	**72,176,712**
FTE	281.93	292.39	280.09	303.51

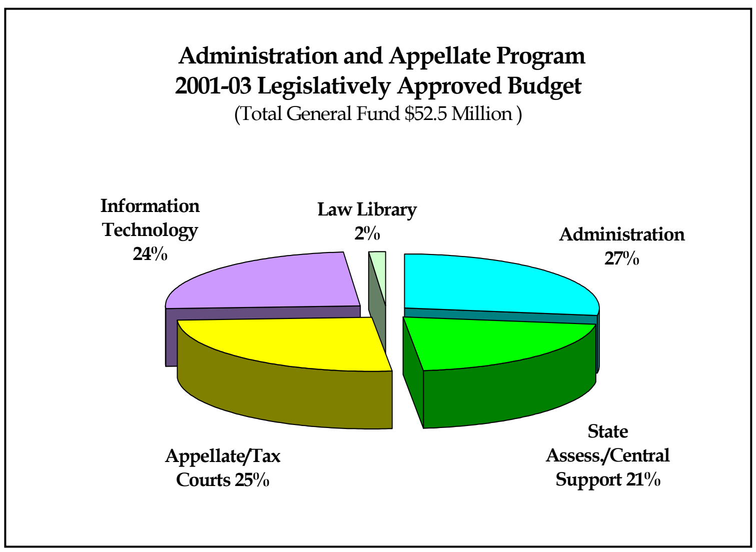
Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). However, recent Governor's budgets, including the 2003-05 Governor's recommended budget, while making no specific recommendations, have provided for a funding level commensurate with funding for Executive Branch agencies. The 2003-05 Governor's budget reflects the roll-up costs for the 2002 fifth special session reductions and does not include funding for the Chief Justice's budget request.

OJD – Admin and Appellate, Chief Justice Recommended Budget

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended
General Fund	49,616,018	56,516,624	52,508,469	72,422,341
Other Funds	5,901,373	9,410,330	9,879,371	9,514,935
Federal Funds	272,183	677,737	677,737	306,977
Nonlimited	0	0	0	5,699,864
Total	**55,789,574**	**66,604,691**	**63,065,577**	**87,944,117**
FTE	281.93	292.39	280.09	315.81

Program Description

The Appellate Courts and Administrative Operations program includes the Oregon Supreme Court, the Court of Appeals, the Tax Court, and the Office of the State Court Administrator. The Chief Justice is responsible for the administration of the Judicial Department within the Judicial Branch of state government. The Supreme Court consists of 7 justices elected to serve 6-year terms. The Court of Appeals consists of 10 judges who hear appeals from trial courts, agencies, and boards. Currently, there is one Tax Court judge who hears matters arising from Oregon tax law. A Tax Magistrate Division was created in 1997 to replace the informal administrative tax appeals process conducted by the Department of Revenue. In 2001-03, the Tax Magistrate program has six magistrates.



The State Court Administrator serves under the direction of the Chief Justice. The State Court Administrator is responsible for certain centralized functions of the Oregon courts system, including legal counsel, internal audit, judicial and staff education, information systems, budget and finance, trial court program statistics, and personnel management. Education and training for Citizens Review Boards, and the Supreme Court library are also funded within the Office. The information systems function, which includes the Oregon Judicial Information Network (OJIN), now constitutes 24% of program area expenditures.

Revenue Sources and Relationship

Estimates of 2003-05 Other Funds revenue include grants from the Department of Human Services for the Citizen Review Board ($722,000), revenue from the sale and distribution of court publications ($1.8 million), fees charged for public access to the Oregon Judicial Information Network ($2.4 million), fees charged for the interpreters and short hand reporter certification programs ($266,930), reimbursement of costs for administration of the court revenue administration and collection activity ($0.8 million), and payments made to the Department of Revenue and private collection agencies for the cost of collecting delinquent debt ($5.7 million). Federal Funds are used for assessments of state foster care and adoption laws and judicial processes.

Budget Environment

The number of cases filed in the Court of Appeals for calendar years 2001-02 decreased by 573 cases over calendar years 1999-00. The 1999-00 case filings were 8,018 compared to 7,445 for 2001-02. The Tax Magistrate Division had 1,348 cases filed in 2002, which is down from the high of 1,983 cases filed in 1999. Regular Tax Court filings were 38 in 2002, down from a high of 111 filed in 1998. The number of direct review cases filed in the Supreme Court in 2001-02 was 301, down from a high of 448 cases in 1999-00 and 362 cases in 2000-01. However, mandatory direct review cases have increased significantly, from 156 in 1999-00 and 110 in 2000-01 to 182 in 2001-02.

The State Court Administrator and support staff continue with efforts to streamline and modernize court operations through ongoing implementation of improvements in automation and processes. Efforts include implementation of technology to facilitate the use of uniform documents and statewide case management systems.

Governor's Budget

The Governor's budget is discussed above.

OJD – Trial Court Operations

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	160,887,324	168,999,744	161,518,557	169,242,134
Other Funds	1,370,673	9,296,129	10,183,593	13,241,491
Federal Funds	326,917	193,758	1,428,189	1,250,000
Total	**162,584,914**	**178,489,631**	**173,130,339**	**183,733,625**
FTE	1467.09	1497.03	1453.08	1283.39

Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). However, recent Governor's budgets, including the 2003-05 Governor's recommended budget, while making no specific recommendations, have provided for a funding level commensurate with average funding levels for Executive Branch agencies. The 2003-05 Governor's budget reflects the roll-up costs for the 2002 fifth special session reductions and does not include funding for the Chief Justice's budget request.

OJD – Trial Court Operations, Chief Justice Recommended Budget

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended
General Fund	160,887,324	168,999,744	161,518,557	210,480,998
Other Funds	1,370,673	9,296,129	10,183,593	13,241,491
Federal Funds	326,917	193,758	1,428,189	1,250,000
Total	**162,584,914**	**178,489,631**	**173,130,339**	**224,972,489**
FTE	1467.09	1497.03	1453.08	1632.28

Program Description

Trial Court Operations includes the funding and operations of all state trial courts, which effective in 1998, are the circuit courts. The program also includes staff to verify the indigency of applicants for representation at state expense. There are circuit courts in each of the 36 counties, served by 169 judges. These courts adjudicate matters and disputes in criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention act, probate, mental commitments, adoption, and guardianship cases.

Revenue Sources and Relationships

The 2001 Legislature provided funding and limited duration staff to facilitate the collection of a large backlog of accounts receivable in Multnomah County Circuit Court. As of November 2002, the backlog of receivables awaiting collection action had been reduced from $92 million to $30 million, adding $62 million into active collections efforts. The goal set for collection resources was to have all of these accounts entered into the automated Accounts Receivable Management System by the end of the biennium. The circuit court will meet this commitment. Federal grant revenue is also included for drug courts in Marion, Malheur, and Benton counties ($1.25 million).

Budget Environment

Case filings in 2001 show a slight increase of 1,455 compared to 2000 and an increase of 19,321 compared to 1999. Overall filings have increased from a low of 555,141 in 1994 to 654,822 in 2001, an increase of 18.0%. However, 50% of current case filings are violations, primarily traffic violations. More serious felony filings have increased from 30,725 in 1994 to 37,646 in 2001 (22.5%). Misdemeanor cases increased from 61,794 in 1994 to 62,803 in 2001 (1.6%). Civil cases increased from 68,469 in 1994 to 69,329 in 2001 (1.3%). Domestic Relations filings declined by 10,169 cases during that same period (16.4%), primarily in administrative order and judgment-related matters, while dissolution cases declined by 5.1%.

There is increasing need to use technology for case management to increase productivity of limited support staff. A key component of the budget is funding to support existing and expanded technology to ensure adequate resources are available for effective operations. However, increased flexibility is needed in automated systems to meet the changing data requirements, especially for innovative programs such as therapeutic drug or family courts.

OJD has also been active in developing new methodologies for resolving disputes, including alternative dispute resolution programs, family law courts, drug courts, and improvements in the jury system and use of interpreters.

The 1997 Legislature created three new judgeships effective January 1, 1999 for Polk, Marion and Multnomah Counties. The 1999-01 roll-up cost for these new judgeships was approximately $1.8 million. The Legislature did not adopt the recommendation of the Joint Bench/Bar Committee on New Judgeships on the creation of 16 new judges and 2 pro-tem judges. However, the 2001 Legislature approved the creation of six new judgeships, effective January 1, 2003. These new judgeships are located in Jackson, Marion, Yamhill, Multnomah, Washington, and Deschutes Counties. As noted above, three of these judgeships were deferred until June 30, 2003.

Governor's Budget

The Governor's budget is discussed above.

OJD – Mandated Payments

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	8,653,255	15,868,536	14,206,677	12,380,653
Nonlimited	0	0	0	250,000
Total	**8,653,255**	**15,868,536**	**14,206,677**	**12,630,653**
FTE	0.00	13.00	13.00	17.57

Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). However, recent Governor's budgets, including the 2003-05 Governor's recommended budget, while making no specific recommendations, have provided for a funding level commensurate with funding for Executive Branch agencies. The 2003-05 Governor's budget reflects the roll-up costs for the 2002 fifth special session reductions and does not include funding for the Chief Justice's budget request.

OJD – Mandated Payments, Chief Justice Recommended Budget

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended
General Fund	8,653,255	15,868,536	14,206,677	15,473,787
Nonlimited	0	0	0	250,000
Total	**8,653,255**	**15,868,536**	**14,206,677**	**15,723,787**

FTE	0.00	13.00	13.00	17.57

Program Description

The mandated payments category funds the cost of providing trial and grand jurors, court interpreters, civil appellate transcript costs for indigent persons, and Americans with Disabilities Act accommodation services.

Budget Environment

The 1999 Legislature approved a requirement that certified interpreters be provided for all judicial and administrative proceedings. The Judicial Department was given responsibility for the certification process. Staff costs for this activity, which is paid through the Appellate and Administration budget, is approximately $513,000.

Juror payment increases approved by the 1999 Legislature in SB 1304 were to change the per diem and mileage rates effective July 1, 2001, with an estimated roll-up cost of $5.8 million for the 2001-03 biennium. These changes included:

- Maintaining the 1999-01 juror fee of $10 per day for first two days of service in circuit court;
- Increasing juror fees for the third and subsequent days to equal to the number of hours served multiplied by the minimum wage (payment must be at least $10 per day and not more than $50 per day); and
- Requiring payment for mileage to any juror serving in a circuit court who must travel more than ten miles each way from juror's usual place of abode.

Jurors may be paid for lodging expenses, dependent care expenses, and other reasonable expenses subject to availability of funds for payment. The bill also provided for a "one-day one-trial" provision for circuit court jurors, pursuant to rules established by the Chief Justice, which allows a person called for jury service to serve for one day or for one trial.

The 2001 Legislature deferred implementation of these changes for six months, to enable OJD to provide jury services within the adopted budget. In the second 2002 special legislative session, the Legislature reduced juror per diem from $50 to $25 for the third and subsequent days of service and reduced the mileage reimbursement to 20 cents per mile. These reductions provided $900,000 of the $1.7 million reduction in this program. The remaining reductions were from reduced service levels, including jury, witness, and interpreter services

The 2001 legislature also approved the transfer of contractual interpreter services to permanent staff and approved 13 positions to be funded out of existing General Fund resources that had been used for these contracts. The Department had identified efficiencies that could be gained through this conversion.

Governor's Budget

The Governor's budget is a reduction of $1,826,024 from the 2001-03 legislatively approved budget, and a reduction of $3,487,883 from the 2001-03 legislatively adopted budget. The Governor's budget, while making no specific recommendations, does not include funding for the Chief Justice's recommended budget packages, including the establishment of permanent staff interpreter positions through the conversion of contractual services to permanent staffing, and the implementation of improved juror per diem and mileage compensation, at a cost of $1 million General Fund.

OJD – Indigent Defense Account

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	141,092,609	165,492,320	143,030,377	0
Other Funds	51,341	1,002,588	1,002,588	0
Total	**141,143,950**	**166,494,908**	**144,032,965**	**0**
FTE	20.21	21.82	21.82	0.00

Note: The 2001-03 legislatively approved budget includes the January 2003 $5 million Emergency Fund allocation. The Governor's budget recommendation is contained in the budget for the Public Defense Services Commission.

Program Description

Both the U.S. and Oregon Constitutions guarantee the right to legal representation, at state expense, to indigent persons facing criminal prosecutions. Also, persons are entitled to state paid representation if they are indigent and are facing involuntary civil commitment proceedings; contempt; probation violation; juvenile court matters involving allegations of delinquency and child abuse or neglect (including termination of parental rights cases); and other limited civil proceedings.

For a full discussion of this budget, see the Public Defense Services Commission budget analysis.

Commission on Judicial Fitness and Disability – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	181,816	198,407	185,580	209,654
FTE	0.75	0.75	0.75	0.75

Program Description

The nine-member Commission on Judicial Fitness and Disability receives and investigates complaints concerning the conduct of Oregon judges. If an initial investigation reveals a judge's conduct may warrant censure, suspension, or removal, the Commission will notify the judge of its intent to issue a formal complaint. Following a formal hearing, the Commission will make a recommendation concerning discipline to the Supreme Court. If a judge's conduct is determined to be the result of a disability, the Commission may refer the matter to the Chief Justice.

Revenue Sources and Relationships

The General Fund supports the Commission.

Budget Environment

The Commission is co-located and staffed (0.5 FTE Executive Director and 0.25 FTE clerical support) by the current Executive Director's private law office. In addition to staffing costs, the budget provides for meeting accommodations, travel reimbursements, and disciplinary proceeding expenses. Expenses associated with disciplinary proceeding generally include investigator, attorney, and court reporter costs which will fluctuate depending on the number of complaints that are filed. The 2001 Legislature provided $39,000 to cover these variable costs, with the understanding that the Commission could appear before the Emergency Board if an extraordinary number of complaints required investigation and formal action resulting in higher costs. In recent biennia, prosecution costs have exceeded $100,000 for one case.

Legislative actions during 2001-03 through the 2002 third special session resulted in a decrease to the Commission's budget by a total of $5,870; a $7,225 increase for cost-of-living and state government service charge adjustments, and an across-the-board reduction of $13,095. An additional across-the-board reduction of $6,957 was applied to this budget during the 2002 fifth special session. Given a relatively low number of formal complaints, the Commission believes that there will be minimal effect on services due to the reductions.

Governor's Budget

The Governor's budget reflects a 13% increase from the 2001-03 legislatively approved budget which is largely attributable to rate adjustments for PERS, flexible benefits, and state government service charges. The budget does incorporate the services and supplies reduction from the first three special sessions. However, given the relatively small size of this agency's budget, the reduction from the 2002 fifth special session was not carried forward into the proposal. The 2002 fifth special session reduction would be the equivalent of a $33,394 biennial reduction in 2003-05.

Public Defense Services Commission (PDSC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,757,599	5,914,734	5,854,598	168,662,716
Other Funds	4,089	0	0	0
Total	**5,761,688**	**5,914,734**	**5,854,598**	**168,662,716**
FTE	41.00	40.20	40.20	62.02

Historically, the Governor's recommended budget has accommodated the entire agency request for agencies exempt from the Governor's budget review (Legislative and Judicial Branches, State Treasurer, and Secretary of State). However, recent Governor's budgets, including the 2003-05 Governor's recommended budget, while making no specific recommendations, have provided for a funding level commensurate with Executive Branch agencies. The 2003-05 Governor's budget goal is to maintain funding at the 2001-03 close of session legislatively adopted funding level (see below) for indigent defense services, but provides no resources to address the agency request budget. The Governor's printed budget for PDSC is $133,662,716 plus a $35 million reservation in the Emergency Fund for indigent defense caseload, for a total of $168.7 million.

Public Defense Services Commission (PDSC) – Agency Totals With Indigent Defense

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation
General Fund	146,850,208	171,407,054	148,884,975	182,776,408
Other Funds	55,430	1,002,588	1,002,588	1,147,263
Total	**146,905,638**	**172,409,642**	**149,887,563**	**183,923,671**
FTE	61.21	62.02	62.02	62.02

Note: the 2001-03 legislatively approved budget includes the January 2003 $5 million Emergency Fund allocation and administrative support.

Program Description

The 1999 Legislature approved a temporary Public Defense Services Commission to evaluate the delivery of trial and appellate indigent defense services, and to make recommendations to the 2001 Legislature. The Commission's recommendations, which included establishment of a trial and appellate defender office separate from the Judicial Department, was adopted by the Legislature in SB 145 (2001). SB 145 created a Public Defense Services Commission, transferred the Office of the Public Defender to the Public Defense Services Commission effective October 1, 2001, and transferred the Judicial Department Indigent Defense Account and indigent defense support staff to the Public Defense Services Commission effective October 1, 2003. With these actions, the Legislature created a unified program to provide trial court and appellate level services to indigent defendants.

This budget reflects the transfer of the Judicial Department program to the Commission. This analysis reflects the transfer-in of the Indigent Defense Account and Administration (IDA) and the existing Office of Public Defense Services (OPDS). The organizational structure will be revised upon consolidation to include three sections: the Legal Services Division, the Contract Services Division, and the Business Services Division. The Legal Services Division will provide indigent defense representation for appellate cases; the Contract Services Division will contract for indigent defense representation at trial; and the Business Services Division will provide business services support. The Commission may implement changes to this organizational structure after the programs are consolidated.

Budget Environment

The OPDS 2001-03 budget was reduced by $60,136 net General Fund based on special session actions during the interim. OPDS received an additional $211,227 General Fund for partial funding of employee salary and benefit increases. This was $36,054 General Fund less than needed to fully fund those increases. To manage the reductions, the agency took one-time actions to delay filling vacant positions, and reduce programs and services. OPDS has delayed the implementation of permanent HB 5100 reductions from the fifth 2002 special legislative session, which will require the elimination of approximately 7.0 FTE attorney and support positions.

During the 2001-03 biennium, in the several special legislative sessions, the budget for the Indigent Defense Account was reduced by $27.5 million (17%) from the legislatively adopted budget. The Judicial Department managed the first reduction of $12.4 million primarily through the implementation of Early Disposition

Programs in some counties, and because of slowing caseload growth. An analysis of proposed reductions subsequent to that cut indicated that the remaining budget was barely adequate to handle the caseload projected through the end of the biennium. The budget was subsequently reduced by $10 million in the third special session. An additional $5.1 million was cut in the fifth special session. The roll-up of that reduction is $24.7 million.

At its January 2003 meeting, the Emergency Board allocated $5 million from the Emergency Fund to partially restore the third special session reductions. Even with the Emergency Fund restoration of $5 million, the Judicial Department will begin prioritizing appointment of counsel immediately, and will either cease or reduce funding for the majority of misdemeanor and probation violation cases by early March 2003. Trial courts may delay action on cases until the 2003-05 biennium, or dismiss cases. District Attorneys also have the option of reducing misdemeanor charges to violations to avoid indigent defense costs. However, these actions will result in defendants who have been charged with crimes or probation violations being at liberty in the community, where they could commit additional crimes. In the long-term, these options could also lead to additional criminal prosecution, and related defense and court workloads, as a result of arrest warrants for defendants who fail to appear in court after their release, and from increases in mental health, child welfare, and substance abuse-related cases.

Governor's Budget

There are a number of gaps in the budget for the Public Defense Services Commission:

- The Governor's budget does not include $1,761,258 million General Fund that was transferred out of the Judicial Department to support the 21.82 FTE in administrative staff, but was not transferred to PDSC;
- The Governor's budget does not include $1.1 million Other Funds that was transferred out of the Judicial Department, but was not transferred in to PDSC.
- The Governor's budget does not include $271,363 General Fund in the Office of Public Defense Services because of errors that carried forward one-time 2002 second special session reductions, and a computation that resulted in the 2002 fifth special session reduction being deducted twice. As a result of these errors, OPDS lacks sufficient General Fund to pay salary adjustment and other fixed costs that are necessary to maintain operations.

PDSC – Office of Public Defense Services

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	5,757,599	5,914,734	5,854,598	4,801,142
Other Funds	4,089	0	0	0
Total	**5,761,688**	**5,914,734**	**5,854,598**	**4,801,142**
FTE	41.00	40.20	40.20	40.20

The 2003-05 Governor's recommended budget, while making no specific recommendations, attempts to maintain the legislatively approved funding level for 2001-03 (see below) for the Office of Public Defense Services, but does not provide resources for the agency request budget.

PDSC – Office of Public Defense Services, Judicial Branch Recommendation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation
General Fund	5,757,599	5,914,734	5,854,598	7,288,894
Other Funds	4,089	0	0	0
Total	**5,761,688**	**5,914,734**	**5,854,598**	**7,288,894**
FTE	41.00	40.20	40.20	40.20

Program Description

The Office of Public Defense Services is currently responsible for providing legal counsel to indigent persons at the appellate court level.

Revenue Sources and Relationships

The General Fund supports the agency. The agency has occasionally had Other Funds revenue from the sale of surplus property. These funds are used for attorney education costs.

Budget Environment

The workload is driven by the number of criminal and parole appeals filed by indigents and the legal complexity of the appealed cases. Statutory changes and ballot initiatives also affect the number of appeals that are filed. After experiencing significant workload growth as a result of statutory and ballot initiative changes in the late 1990's, the workload has stabilized, and no significant changes are projected. The 1999 Legislature added 6.25 FTE to deal with this workload, including converting limited duration attorney and clerical support positions to permanent funding, and funding three new attorney positions and two clerical positions. The agency also received additional funding from the Emergency Board in the 1999-2001 interim to deal with workload and agency management problems.

The 2001 Legislature adopted HB 2348 that restructured appeals of orders by the Board of Parole and Post-Prison Supervision. While reducing appellate workload overall, it added workload for the Public Defender. The Legislature appropriated $174,088 General Fund and added 2 positions (1.07 FTE) to handle this workload. Other issues include addressing time limits for extensions on appeal established by the Court of Appeals.

Governor's Budget

The Governor's budget funds the Office of Public Defense Services at $4,801,142 and 40.2 FTE. This is a decrease of $1,053,456 General Fund from the legislatively approved budget. This reflects the roll-up cost of HB 5100 in the fifth 2002 special legislative session. The budget does not include sufficient funding to maintain approximately 7.0 attorney and support FTE that are currently reflected in the Governor's budget. The budget does not include funding for standard adjustments necessary to maintain services, including inflation, state government service charges, and salary adjustments because of technical errors, as discussed above, amounting to $271,363 General Fund.

The Governor's budget does not include specific funding for Judicial Branch agency request packages, including:

- $161,168 for salary parity between equivalent Public Defense and Department of Justice appellate attorneys;
- $148,092 for an office move necessary to consolidate the trial and appellate functions within the Public Defense Services Commission; and
- $1,053,456 to restore the rollup of HB 5100 reductions in the 2002 fifth special session, including reductions to attorney and support staff.

The Judicial Branch request for OPDS is $7,288,894 or $2,487,752 above the Governor's budget.

PDSC – Indigent Defense Account and Administration

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Governor's Recommended
General Fund	0	0	0	163,861,574
FTE	0.00	0.00	0.00	21.82

The 2003-05 Governor's budget maintains the legislatively adopted funding level for 2001-03 (see below) for indigent defense services but provides no resources to address the agency request budget. The Governor's printed budget for indigent defense is $128,861,574 plus a $35 million reservation in the Emergency Fund for indigent defense caseload, for a total of $163.9 million. Although 21.82 FTE and $1.8 million General Fund were transferred from the Judicial Department, the transfer-in to the Public Defense Services Commission did not occur in the Governor's budget.

PDSC – Indigent Defense Account and Admn, Judicial Branch Recommendation

	1999-2001 Actual	2001-03 Legislatively Adopted	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation
General Fund	141,092,609	165,492,320	143,030,377	175,487,514
Other Funds	51,341	1,002,588	1,002,588	1,147,263
Total	**141,143,950**	**166,494,908**	**144,032,965**	**176,634,777**
FTE	20.21	21.82	21.82	21.82

Note: The 2001-03 legislatively approved budget includes the January 2003 $5 million Emergency Fund allocation and administrative support.

Program Description

Both the U.S. and Oregon Constitutions guarantee the right to legal representation, at state expense, to indigent persons facing criminal prosecutions. Also, persons are entitled to state paid representation if they are indigent and are facing involuntary civil commitment proceedings; contempt; probation violation; juvenile court matters involving allegations of delinquency and child abuse or neglect (including termination of parental rights cases); and other limited civil proceedings. The Public Defense Services Commission will continue to primarily contract with nonprofit public defenders, law firms, consortia, or individual attorneys to provide services to indigents. This Division also is responsible for the costs of all transcripts, and all appellate work that the Office of Public Defense Services does not handle, such as child abuse and neglect cases.

Budget Environment

The indigent defense cost increases are primarily due to caseload increases. The primary drivers of caseloads are the levels of resources available to law enforcement, prosecution, juvenile departments, mental health and alcohol/drug treatment, parole and probation services, and jail and prison space.

The 1999-2001 legislatively adopted budget was based on caseload growth projections of 4% per year. The caseload growth between fiscal years 1998 and 1999 had slowed to 4 percent. However, caseload growth between fiscal years 1999 and 2000 was actually 7.2 percent. Also, raw caseload projections do not take into account the increasing complexity of cases arising from new laws and ballot measures. The Department has worked with contractors to implement cost and quality control.

The 2001-03 legislatively adopted budget was increased by $24.1 million based on a projected caseload increase of 6% per year. This projection was based on actual growth during the first year of 1999-01 biennium, including increases of: 1.3% in felonies; 7% in DUII and other misdemeanors; 9.4% in violations; and 10.7% in juvenile matters. The subsequent special session reductions are discussed above.

Governor's Budget

The Governor's Budget reflects the transfer of $146,035,810 General Fund and $1,147,263 Other Funds from the Oregon Judicial Department to the Public Defense Services Commission. This transfer includes $1.8 million General Fund and 21.82 FTE staff to support the delivery of indigent defense services, including contract negotiations and management, accounting, and support services. However, the Governor's budget does not reflect the transfer-in of this administrative funding. The Governor's budget also does not transfer the $1.1 million Other Funds into the Public Defense Services Commission, and a technical adjustment will be required to correct that oversight.

Subsequent to the transfer, the budget was reduced by $34.9 million to reflect reductions taken in the third and fifth 2002 special legislative sessions. These actions result in a Governor's budget of $128,861,574. The total budget, when combined with the Emergency Fund reservation of $35 million, is $163.9 million. This is equivalent to the funding provided for the Indigent Defense Account (which is the representation cost for indigent persons) at the close of the 2001-03 legislative session, but does not fund the staff support for the program.

The Governor's budget does not include specific funding for Judicial Branch agency request packages, including:

- $24,726,850 to restore 2002 fifth special session reductions, including reductions to administrative and support staff;
- $10,142,638 to restore 2002 third special session reductions, including reductions to administrative and support staff;
- $10,512,524 for compensation adjustments for contractors, investigators, hourly rate paid attorneys and public defense contractors;
- $75,908 for moving expenses for the consolidation of the indigent defense and public defender programs; and
- $18,863,272 to reflect the transfer of 3 months of 2003-05 expenditures remaining in the Judicial Department budget (assumes the transfer of the program on 10/1/03 under current law).

The total Judicial Branch budget request for this program is $176,634,777, or $12.8 million above the Governor's balanced budget level (assuming allocation of the $35 million Emergency Fund reservation).

EMERGENCY FUND

Emergency Fund – Totals[1]

	1999-01 Actual	2001-03 Legislatively Adopted Budget	2001-03 Legislatively Approved Budget	2003-05 Governor's Recommended
General Fund	81,900,000	140,000,000	98,300,000	48,397,962
FTE	0.00	0.00	0.00	0.00

[1] *Emergency Fund totals in the above table do not reflect special purpose appropriations for agencies. These amounts are included in the agency-specific tables elsewhere in this document.*

Program Description

The Emergency Fund consists of General Fund appropriations made to the Emergency Board. The Board allocates money from the Emergency Fund to finance contingencies that are not addressed in approved agency budgets. The Board allocates money to finance general employee compensation increases when an appropriation is made for this purpose. Appropriations are also made to the Board for allocation to specific agencies for specific purposes. This is done in lieu of a direct appropriation to an agency when additional information is required or conditions need to be met prior to making the funds available. As part of rebalance actions during the five 2002 special sessions, the Legislature made adjustments to the appropriations in each of these three major categories. The following table separately identifies components within the Emergency Fund:

	1997-99 Approved	1999-01 Approved	2001-03 Adopted	2001-03 Approved
General Purpose Emergency Fund	38,200,000	41,900,000	40,000,000	21,000,000
Salary & Benefit Adjustment	62,500,000	40,000,000	100,000,000	77,300,000
Special Purpose Appropriations	n/a	64,267,351	85,860,033	34,085,281
Total	100,700,000	146,167,351	225,860,033	132,385,281

Budget Environment

The size of the general purpose Emergency Fund has not expanded in the past several biennia proportionately with the growth in the General Fund budget. Unused special purpose appropriations have augmented the general purpose Emergency Fund.

The actual cost of implemented salary and benefit increases has significantly exceeded the amounts appropriated to the Emergency Board in each of the past three biennia. Appropriations in 1995-97 and 1997-99 financed approximately 70% of the actual increases. The $40 million appropriated in 1999-01 financed less than 50% of the actual increases. The $100 million appropriated for 2001-03 was anticipated to fully fund salary and benefit increases, but was reduced by the Legislature during the 2002 special sessions to $77.3 million. Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth.

Governor's Budget

The Governor's budget includes a $48.4 million general purpose Emergency Fund. Since the Governor's budget assumes no cost of living or health benefit increases for state and school employees, the proposed budget contains no special purpose appropriation to the Emergency Board for salary and benefit increases. The Governor's proposed budget also includes a $35 million special purpose appropriation to the Emergency Board for indigent defense issues. This amount is anticipated to put the Indigent Defense Services Account in line with current service levels given some assumed reduction in caseloads through system wide changes.