ANALYSIS OF

2003-05
LEGISLATIVELY ADOPTED BUDGET

Legislative
Fiscal
Office

STATE OF OREGON
LEGISLATIVE FISCAL OFFICE

900 COURT STREET NE
H-178 STATE CAPITOL
SALEM OR 97301-4048
PHONE 503-986-1828
FAX 503-373-7807

KEN ROCCO
LEGISLATIVE FISCAL OFFICER

LARRY NISWENDER
DEPUTY LEGISLATIVE FISCAL OFFICER

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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 2003-05 Legislatively Adopted Budget*. Each agency discussion includes program descriptions in addition to detailed analysis of revenue sources, budget environment, and the specific budget actions adopted by the 2003 Legislative Assembly.

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

Ken Rocco
Legislative Fiscal Officer

LEGISLATIVE FISCAL OFFICE

900 Court Street NE
State Capitol, Room H-178
Salem OR 97301
Phone: 503-986-1828
FAX: 503-373-7807

Administration

Ken Rocco, Legislative Fiscal Officer 503-986-1844
Emergency Board

Larry Niswender, Deputy Fiscal Officer 503-986-1839
Legislative Branch

Gina Rumbaugh, Office Manager..............................503-986-1829

Joan Diaz, Administrative Support 503-986-1819

Budget Analysts

Sheila Baker 503-986-1838
Human Services, Children's Programs

Steve Bender...503-986-1836
Higher Education

John Britton 503-986-1816
Human Services, Health Plan

Susie Jordan..503-986-1835
Transportation, Parks and Recreation

Robin LaMonte 503-986-1845
Judicial Branch, Economic Development, Consumer Services

Sue MacGlashan...503-986-1817
K-12 Education, Natural Resources

Rick Olsen...503-986-1840
Housing, Employment, Secretary of State

Paul Siebert..503-986-1843
Natural Resources

Dallas Weyand...503-986-1834
Administrative Services, Revenue, PERS

Doug Wilson 503-986-1837
Public Safety

Fiscal Analysts

Monica Brown 503-986-1832
Human Services, Judicial Branch, Transportation

Judi James 503-986-1842
Natural Resources, Public Safety

Adrienne Sexton...503-986-1841
Education, Administration, Economic Development

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PROGRAM AREAS

EDUCATION

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	435,653,740	382,281,436	413,691,803	423,227,826
Lottery Funds	0	0	0	49,000
Other Funds	10,691,850	14,040,971	12,835,967	13,152,259
Federal Funds	108,248,320	148,333,991	126,858,664	123,383,620
Federal Funds Nonlimited	0	0	2,339,105	2,339,105
Total	**554,593,910**	**544,656,398**	**555,725,539**	**562,151,810**
FTE	43.58	43.40	46.70	44.70

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 $126 million in the 2003-05 biennium. These include $109 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 decline approximately 12.7% 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. Timber Tax revenues that are distributed to community colleges are also included in the agency budget. The 2003 Legislature added Lottery Funds to support advanced technology education and training programs.

CCWD – Office Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,120,096	2,331,024	2,316,766	2,011,367
Other Funds	1,691,677	1,753,866	2,037,311	1,779,287
Federal Funds	5,237,284	6,146,629	6,943,775	6,692,585
Total	**9,049,057**	**10,231,519**	**11,297,852**	**10,483,239**
FTE	38.58	40.40	43.70	41.70

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.

Legislatively Adopted Budget

The Governor's budget had proposed General Fund reductions that forwarded, on a biennial basis, the cuts made to the Office Operations budget during the 2002 special sessions. The budget allowed these reductions to be taken without loss of employment. Instead, a position that had been funded by General Fund was switched to Federal Fund support, and the person's responsibilities were 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 Legislatively adopted budget incorporates the reductions the Governor proposed. The budget also includes additional reductions of two types: a) standard reductions applied to all state agency budgets, and b) reductions specific to the CCWD budget. The standard reductions include elimination of support for merit increases and for cost of living adjustments for state employees, and elimination of funding for inflation (regarding inflation, the Governor had proposed eliminating General Fund finance of inflation – the Legislature extended this to Federal and Other Funds as well). The budget also includes adjustments to reflect revisions in state government service charge assessments. These reductions totaled $15,255 General Fund and $132,828 Other/Federal Funds. Although the General Fund appropriation was reduced, the Other and Federal Funds expenditure limitations were not. Instead, reductions in Other and Federal Funds were transferred to special payments to allow the savings to be used for increased payments to local service providers and to allow all expected revenues to be used.

Additionally, the Legislature eliminated one vacant position, and reduced funding for six others to allow replacements to be hired, but only at the second salary step for their positions. These actions on vacancies reduced General Fund by an additional $110,832 and shifted an additional $187,418 of Other and Federal Funds to local service providers. Finally, to reflect reduced compensation costs resulting from PERS reform and from the refinance of the system's liability, the budget reduced General Fund another $39,312 General Fund. In a reduction specific to the agency, the budget removed a further $140,000 General Fund to assist in the rebalance of the state General Fund budget. Combined, these various adjustments reduce General Fund support for Office Operations by 13.7% from the amount that remained in the 2001-03 biennium after special session reductions, and by 24% from the level originally approved for the 2001-03 biennium in the 2001 session.

The budget adds three permanent, full-time positions to be funded with Federal Funds to 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 Governor's budget included a fourth new position to assist development of Professional/Technical programs and will be financed with Carl Perkins (Other) Funds, but the Legislature did not approve this position and eliminated another existing position that was vacant. 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 was moved from the agency 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	428,383,836	375,242,140	407,668,252	417,900,404
Lottery Funds	0	0	0	49,000
Other Funds	1,637,066	1,782,400	0	316,292
Total	**430,020,902**	**377,024,540**	**407,668,252**	**418,265,696**
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 Columbia Gorge Community College District. Generally, colleges receive funding for their full-time equivalent (FTE) enrollments in Lower Division Collegiate, Professional/Technical, Developmental Education, and certain 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

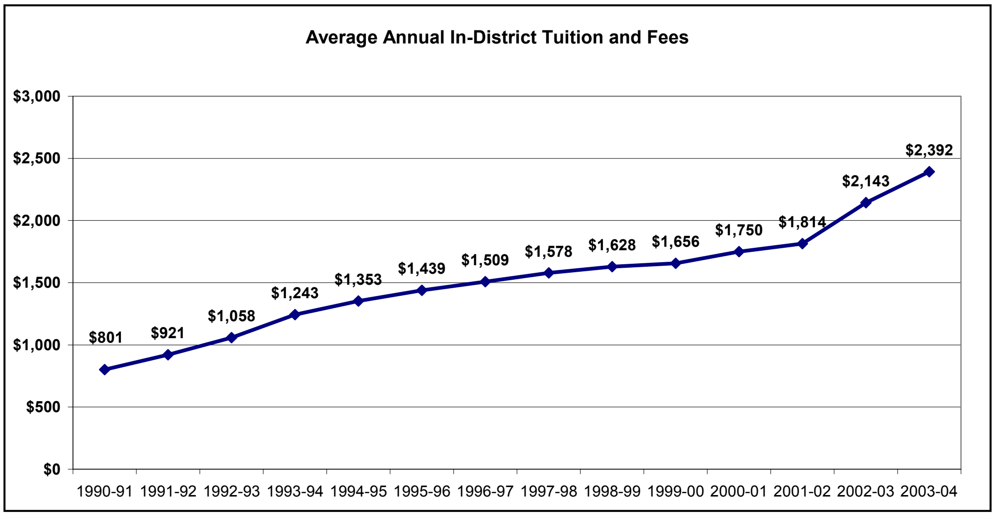
State support to community colleges is almost exclusively provided by the General Fund. In 1999, however, the Legislature changed the state's system of timber taxation. The new law eliminated the timber privilege tax distribution to community colleges and made this revenue a state resource. The law also 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, when the tax revenue became a state resource, they did. This revenue is distributed as Other Funds. All of the Other Funds in this program area are financed from this source. In the 2003 session, the Legislature added Lottery Funds to support advanced technology education and training programs at the colleges.

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 $198 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 30%) of college operating revenues. The state General Fund supports the remaining 47% of college costs.

Budget Environment

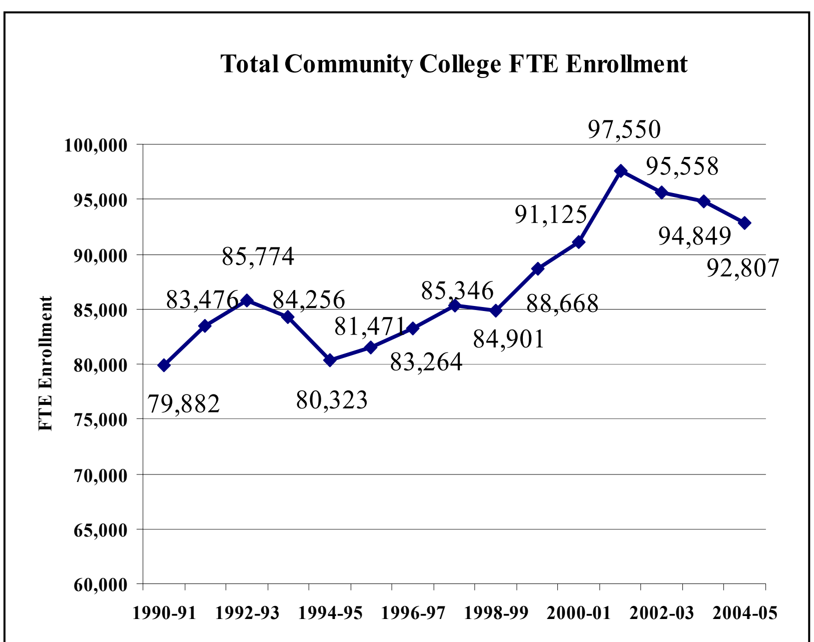
In the 2001 regular session, the Legislature increased General Fund support for community colleges by 9% over the prior biennium level. During the interim following that session, however, General Fund support was reduced to help address the state's General Fund revenue shortfall. The Legislature reduced 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 session 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, in 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 (on 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 increased a further 11% in 2003-04.



Enrollment growth accelerated in the late-1990's. 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 sessions will cause enrollment to decline in 2002-03, and that the further reductions included in the legislatively adopted budget will result in further enrollment declines in the 2003-05 biennium. If enrollments decline, as the Department projects, to just under 93,000 FTE in 2004-05, total enrollment would fall to levels not seen since the end 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 legislatively adopted budget, however, 2003-05 biennium revenues are projected to grow only 4.5% above the reduced 2001-03 biennium level. This rate of increase is not likely to cover the colleges' increased costs, so program cutbacks are likely 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 2001-03 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.

Legislatively Adopted Budget

The legislatively adopted budget incorporates both enhancements and offsetting reductions to CCSF funding. The net effect of these adjustments is to provide General Fund support at a level approximately $14.8 million (or 3.4%) below the amount effectively funded in the 2001-03 biennium after special session and rebalance reductions (i.e., excluding a $56 million reduction from shifting the last support fund payment to the 2003-05 biennium), and a decrease of $50.6 million (or 10.8%) from the 2001-03 biennium level originally adopted in the

2001 session. Nonetheless, the adopted budget represents a $10.5 million (or 2.6%) increase over the funding level that the Governor had originally proposed for the biennium.
The Governor had proposed funding at a level of General Fund support that was 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 Legislature made a number of changes to the funding level the Governor proposed. The approved budget added a total of $20.7 million General Fund in supplemental funding. However, these additions were partially offset by a $3.3 million General Fund reduction that offset an equivalent increase in property and timber tax collections projected for community colleges. That is, this $3.3 million reduction, in and of itself, left total public funding for community colleges unchanged. General Fund was further reduced by $7.2 million in response to PERS reform that will reduce the contribution rate that community colleges will have to pay to cover their employees. This amount is calculated to reflect a portion of the actual reduction in PERS costs to community colleges, as paid from the state General Fund portion of their budgets. The amount reflects only the direct impact of PERS legislation passed this session. Unlike how the PERS reduction was calculated for state agency budgets, it does not reflect contribution rate reductions from refinancing the PERS liability. The actual savings to community colleges should therefore exceed the $7.2 million that was removed from the budget. Finally, the Legislature added $316,292 Other Funds to the CCSF distribution. These represent distributions of Timber Taxes made available by passage of HB 2197, a bill which revised the state's timber tax system, and of higher than anticipated timber taxes collected under the prior law.

A total of $10.7 million of the General Fund support for the CCSF was appropriated to the Emergency Board as a special purpose appropriation. Certain community college districts object to a provision in the current CCSF distribution formula that includes districts' property tax collections as a factor in the calculation of how state General Fund dollars are distributed to the districts. A description of how the current formula works and its impact is included in the "Budget Environment" section immediately above.

This current formula is being challenged in the courts. At the same time, the Department is supporting an effort by community college presidents to develop a revised formula proposal. When the Legislature appropriated $10.7 million to the Emergency Board to support this effort, the Emergency Board was instructed to allocate these funds after the State Board of Education, which under law sets the CCSF distribution formula, acts on the revised formula proposed by the presidents.

The budget incorporates a number of expectations regarding community college funding. These include the following:

- The adopted budget does not support any increases in salaries, wages, or benefits for community college employees during the 2003-05 biennium. Compensation levels at community colleges are not controlled by the state. Instead, they are determined by local community college district boards. The budget includes an expectation that boards will not award any such increases.
- The adopted budget does not provide any General Fund support for self-improvement classes that are not health-, safety-, or workforce-related in content. The colleges are expected to support any such classes entirely from tuition and fee income.

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 enrollments in the Community College Support Fund formula. The $20.7 million of General Fund enhancements to the Governor's budget restores funding for approximately 7,300 of these FTE. If the colleges' projected revenue from tuition, fees, and property taxes is included, total 2003-05 biennium funding will be 4.5% above what was received from these same sources in 2001-03. This assumes tuition revenue growth of 7% per year as projected by the Department. Actual tuition revenue growth will depend on the tuition rates approved by local district boards, and on enrollment levels, and is therefore difficult to project with accuracy.

The adopted budget also includes $49,000 of Lottery Funds to be distributed outside of the CCSF in support of advanced technology education and training programs.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral, then $6.8 million of General Fund will be disappropriated from the appropriation to the Community College Support Fund, based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor.

CCWD – Federal/Other Support to Community Colleges

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,538,236	8,611,918	8,827,518	9,085,542
Federal Funds	99,504,385	142,187,362	119,914,889	116,691,035
Federal Funds Nonlimited	0	0	2,339,105	2,339,105
Total	**105,042,621**	**150,799,280**	**131,081,512**	**128,115,682**
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.

Legislatively Adopted Budget

The legislatively adopted budget supports these programs at the projected Federal Funds and Other Funds revenue levels. The budget projects that funding will decline by approximately 15% from the prior biennium level. (Approximately 2.5% is due to the transfer of the Even Start Family Literacy program out of the Department.) 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. Another uncertainty is the amount of NEG revenue to be received, as this is only received on an as-needed basis. The Department received a high level of NEG funds in the 2001-03 biennium because of numerous layoffs in the Oregon economy. The level of NEG funding is projected to decline in the 2003-05 biennium as labor market conditions improve.

In any event, 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, however, makes some of the Department's Federal 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 budget also supported the Governor's proposal to move the Even Start Family Literacy program to the Department of Education. The budget for CCWD now includes no expenditures of funds for this program. The program was transferred to conform to the federal No Child Left Behind Act.

CCWD – Debt Service

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

Legislatively Adopted Budget

The legislatively adopted budget fully funded this program. The Legislature made no changes to the amount in the Governor's budget.

CCWD – Community Service Commission

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	433,673	356,187	390,730	0
Other Funds	1,824,871	1,892,787	1,971,138	1,971,138
Total	**2,258,544**	**2,248,974**	**2,361,868**	**1,971,138**
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.

Legislatively Adopted Budget

The legislatively adopted budget suspends General Fund support for the OYCC for the 2003-05 biennium. The OYCC will continue to function during the biennium, although there will be a reduction in the number of youth who can be served in the two programs the OYCC operates. Funds from the Amusement Device Tax, and transfers from other state agencies (fees for services), were not reduced.

Personal service costs are financed by Other Funds. The suspension of General Fund did not affect personal service expenditures. The adopted budget does, however, eliminate funding of merit increases of OYCC employees as it does for other state agency employees. This reduced personal service funding by $25,824 Other Funds. The budget transfers this limitation to special payments to partially offset the impact of the General Fund suspension of funding for youth projects.

Department of Education (ODE) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	4,516,507,216	4,044,161,523	5,014,284,953	4,987,439,072
Lottery Funds	300,993,686	670,555,682	278,564,277	507,799,698
Other Funds	271,234,139	331,475,776	128,560,122	66,912,964
Federal Funds	578,141,568	741,644,334	579,832,073	687,320,617
Nonlimited	5,133,585	4,707,302	188,134,694	192,063,152
Total	**5,672,010,194**	**5,792,544,617**	**6,189,376,119**	**6,441,535,503**
FTE	466.98	459.03	459.91	447.32

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 2003-05 legislatively adopted budget is an 11.2%, or $649 million, increase over the 2001-03 legislatively approved budget and a 4.1%, or $252 million, increase over the Governor's budget. About $522 million of the change from 2001-03 is due to an increased level of funding for the State School Fund. Another $127 million is due to increased federal funding for grant-in-aid to local educational programs.

The following are highlights of the legislatively adopted budget.

- The budget increases General Fund support for the State School Fund by about $935 million above the 2001-03 legislatively approved budget. About $242 million of this increase is due to the use of a one-time resource (Medicaid Upper Payment Limit or MUPL) in 2001-03 but not in 2003-05. Another $163 million of the General Fund increase is due to a lower level of lottery resources available for the 2003-05 budget, primarily from the Education Stability Fund. This resource drops from $262 million in 2001-03 to $122 million in 2003-05. Support from unobligated lottery resources drops by another $23 million. The remainder of the General Fund increase reflects overall growth in the level of K-12 support – from $4.69 billion in 2001-03 to $5.21 billion in 2003-05.
- To reinstate student assessments that were suspended during the 2001-03 biennium, the budget restores $3.3 million of the 2002 special session General Fund reductions that occurred in the budget for the student assessment system. Of this amount, $1 million is established as a special purpose appropriation to the Emergency Board. The agency can request allocation of the appropriation when it submits certain information on the costs of the assessment system to the Board.
- The budget includes $6.8 million in special purpose appropriations to the Emergency Board for Early Intervention/Early Childhood Special Education ($6.5 million) and Department Operations ($0.3 million). The agency is required to submit certain information to the Emergency Board when requesting allocation of these special purpose appropriations.

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	42,682,787	35,020,614	43,749,056	36,620,320
Other Funds	4,560,317	11,296,867	10,071,488	6,611,324
Federal Funds	22,368,494	32,874,920	40,858,326	38,869,643
Nonlimited	5,133,585	4,583,258	4,743,670	4,743,670
Total	**74,745,183**	**83,775,659**	**99,422,540**	**86,844,957**
FTE	259.06	265.99	270.93	258.26

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 a number of offices described below as well as human resources, pupil transportation, technology and information resources, management services, and school finance, data, and analysis.

Under the new leadership at the Department, several offices will be consolidated in the coming months. As consolidation occurs, it is likely the activities within each newly configured office will change to some degree from the activities of the original offices. Recently, the ***Office of Curriculum, Instruction, and Field Services (CIFS)*** and the ***Office of Professional Technical Education (OPTE)*** have been combined into the ***Office of Curriculum, Instruction, and Professional Technical Education***. In the past, CIFS has provided services through the development of common curriculum goals and academic content standards, technical support to schools, and site visits for school improvement in local districts. This office also has administered grants for charter schools, character education, teacher quality, reading, and technology. OPTE has focused on preparing high school students to enter the workforce or vocational programs at community colleges. Specific tasks have included 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 Student Services*** has directed efforts to help disadvantaged children meet standards. Programs managed by this office have included compensatory education programs in local school districts, early childhood education programs (including Oregon Prekindergarten), and child nutrition programs. The office has monitored for compliance with federal law and provided technical assistance to school districts. Other programs in this office have included those addressing race and sex equity, drug and alcohol, health education, and homeless students. The ***Office of Special Education*** has overseen the Department's numerous special education programs (including regional programs and Early Intervention/Early Childhood Special Education), provided technical assistance, and monitored to ensure compliance with federal and state requirements.

The ***Office of Assessment and Evaluation*** has been responsible for the development and implementation of the statewide student assessment system, which is designed to measure student performance against state content standards for kindergarten through grade 12. This office also has provided information used in state-issued school and district reports cards and by districts in planning school improvement.

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 Department 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 over the last decade has been 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 (CIM) standards.

In 1999, the first Certificates of Initial Mastery were awarded to tenth graders successfully passing tests taken in Spring 1999 in English and mathematics. Science was later added and the Department developed an implementation timeline for other CIM subject areas such as the arts, second languages, and social sciences. 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.

HB 2744 passed by the 2003 Legislature reduced the mandated CIM subject areas to mathematics, science, and English, eliminating the mandate for the arts, physical education, history, geography, economics, civics, and second languages**.** The bill requires the Department to still have state academic content standards for the optional subject areas and, in addition to the existing assessments in mathematics, English, and science, to develop assessments for history, geography, economics, and civics (commonly known as "social sciences") for school districts that choose to award the CIM in the optional subject areas. The Department already has completed much of the assessments for the social sciences. For those subject areas for which the Department is not required to develop assessments, districts may use local assessments based on state standards for CIM endorsements. HB 2744 reduces the number of academic areas in which students must demonstrate proficiency to those same subjects required by the federal No Child Left Behind (NCLB) Act of 2001 – namely, mathematics, English, and science. (Schools still are required to offer students instruction in the mandated *and* optional subject areas, which must meet content standards adopted by the State Board of Education.)

Initial testing for the Certificate of Advanced Mastery, which is awarded in the context of a career area, began in 1999. Oregon high schools have been at various stages of development and implementation. The estimated timeline for statewide implementation was September 2006, but HB 2744 delayed the statutory implementation date from September 1, 2004 to September 1, 2008 in response to concerns about mandated requirements placed on schools in a time of reduced resources.

The No Child Left Behind Act 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 already 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 subsequent to this approval several tests were suspended as a result of special session reductions made by the Legislature in 2002. (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. Although federal funding of $5.5 million was received by Oregon to implement new assessment requirements, the agency suspended the following tests for the 2002-03 school year: 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 expressed concern over these suspensions. The ODE has since restored writing, math problem-solving, and science for the 5th and 8th grades.

In total, the Operation program's General Fund was reduced by over 20% during 2001-03 because of the statewide General Fund shortfall. In addition to the reduction in the budget for assessment activities, the Operations program was reduced by $197,040 General Fund to reflect the funding of salary increases at 74.2% of actual costs. The Legislature eliminated $2.5 million for a special purpose appropriation related to the Department's technology projects. In addition, the Operations budget was reduced by $440,120 General Fund due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. Finally, another $1.4 million General Fund was disappropriated from the budget since voters did not approve the January 2003 tax measure. To manage to the cuts, the agency planned to make additional reductions in the assessment program, data projects, and curriculum and other services in 2001-03.

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

Legislatively Adopted Budget

The legislatively adopted budget is a 3.7% increase over the 2001-03 legislatively approved budget and a 12.7% decrease from the Governor's budget. Within the overall increase from the 2001-03 level of funding, General Fund is increased by 4.6%, Limited Other Funds expenditure limitation is decreased by 41.5%, and Federal Funds expenditure limitation is increased by 18.2%. This latter increase is largely due to funds for assessment activities associated with the No Child Left Behind Act.

The Legislature approved a reorganization package to resolve double-filled and work-out-of-class positions and to reallocate funding to reflect the program's actual operations. The approved package decreased the budget by $235,628 General Fund, increased expenditure limitations by $240,560 Other Funds and $90,346 Federal Funds, and established 12 positions (12.0 FTE).

The Legislature also approved the addition of $202,024 Federal Funds expenditure limitation and one position (0.7 FTE) to transfer the Even Start Family Literacy program from the Department of Community Colleges and Workforce Development to the ODE.

The Legislature made several reductions to the Governor's budget as follows:

- a $1.7 million reduction to a $4 million General Fund policy package that restored funding for the student assessment system that had been reduced as a result of 2002 special session actions, with $1 million of the reduction established as a special purpose appropriation to the Emergency Board;
- a reduction in total funds of $2.1 million – including $1.5 million General Fund – for the elimination of vacant positions (12.0 FTE) and continuation of certain vacant positions at reduced salaries;
- a $3 million reduction in Other Funds expenditure limitation to eliminate unnecessary limitation;
- a $3.3 million reduction in total funds – including $1.2 million General Fund – for a lower PERS employer contribution rate, the salary freeze for state employees, elimination of the inflation allowance, and reduced interagency service charges; and
- a $3.9 million reduction in total funds – including $3.8 million General Fund – for the elimination of 3 positions (3.67 FTE) and reductions in CIM/CAM support, technology, field services, and other Department activities, with $300,000 of the General Fund reduction established as a special purpose appropriation to the Emergency Board.

The Department was directed by a budget note to report to the Emergency Board on the results of its reorganization, at which time the agency can request allocation of the $300,000 special purpose appropriation. It also was directed to develop and submit to the Emergency Board a plan that implements the most cost-effective assessment program for the testing requirements under the federal No Child Left Behind Act. Upon submission of the report, the agency may request allocation of the $1 million special purpose appropriation for the assessment program, if necessary.

ODE – Special Schools

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	14,796,242	15,977,168	17,328,211	16,595,302
Other Funds	3,320,390	3,542,752	3,251,114	3,111,039
Federal Funds	447,389	1,081,804	859,044	764,938
Nonlimited	0	124,044	124,886	0
Total	**18,564,021**	**20,725,768**	**21,563,255**	**20,471,279**
FTE	162.92	157.04	154.98	158.06

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%); 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 may experience a slight increase in referrals in 2003-05, based on fewer services being available locally. Annual enrollment at the OSD has increased slightly, from 115 students in 1995-97 to 130 in 2001-03. The Department currently anticipates slight growth in annual enrollment to between 130 to 140 students for 2003-05.

During the 2002 special legislative sessions to balance the state's General Fund budget, the Special Schools' budget for capital outlay and services and supplies was reduced by $668,000 General Fund. The program's General Fund also was reduced by $265,370 to reflect the funding of salary increases at 74.2% of actual costs. The budget was reduced by an additional $195,762 General Fund due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. Finally, another $606,270 General Fund was disappropriated from the program as a result of the failure of Measure 28 in January 2003. The agency expected to manage to these cuts through fund shifts to Other and Federal Funds, reduced staffing, and reductions in the services and supplies budget.

To achieve the estimated $1.2 million General Fund savings in 2003-05 from the roll-up of permanent reductions, the Department reduced the services and supplies budget, decreased funding for field trips, closed dormitories on the weekends, and reduced staffing through layoffs and attrition.

Legislatively Adopted Budget

The legislatively adopted budget is a 1.2% decrease from the 2001-03 legislatively approved level and a 5.1% decrease from the Governor's budget. The Legislature approved a reorganization package to resolve double-filled and work-out-of-class positions, eliminate unused positions, and reallocate FTE and funding to reflect the program's actual operations. The approved package decreased the budget by $33,678 Total Funds and eliminated 70 positions while increasing FTE by 5.08.

The Legislature adjusted the budget for a lower PERS employer contribution rate, the salary freeze for state employees, lower salaries for certain vacant positions, elimination of the inflation allowance, and reduced interagency service charges. The Legislature also eliminated the Nonlimited Other Funds budgeted expenditures since this category is no longer used by the program.

ODE – Youth Corrections Education Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	20,074,540	28,117,422	23,050,000	21,758,832
Federal Funds	1,965,843	2,865,568	2,924,656	2,794,352
Total	**22,040,383**	**30,982,990**	**25,974,656**	**24,553,184**
FTE	45.00	36.00	34.00	31.00

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 21 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 October 2003 forecast projected a population of 812 at July 2003 and 900 at July 2005, a 10.8% increase. In part, the changes between the two forecasts are due to the elimination of 150 beds in Albany (75), Prineville (50), and Warrenton (25). Originally, 250 beds were eliminated as a result of the failure of Measure 28 in January 2003, but the 2003 Legislature restored 50 beds in Burns and 50 in Warrenton.

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.

Legislatively Adopted Budget

The legislatively adopted budget is a 20.8% decrease from the 2001-03 legislatively approved budget and a 5.5% reduction from the Governor's budget. The Legislature approved a reorganization package that eliminated 3 positions (3.0 FTE) and decreased the budget by $261,235 Total Funds. The Legislature adjusted the budget for a lower PERS employer contribution rate, the salary freeze for state employees, a lower budgeted salary for a vacant position, elimination of the inflation allowance, and reduced interagency service charges.

Because the State School Fund budget had not yet been adopted by the Legislature at the time it adopted this budget, it made no adjustment to the Other Funds expenditure limitation that reflects the program's share of the State School Fund. Instead, the agency was directed to request any additional limitation needed from the Emergency Board.

ODE – Grant-in-Aid

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	186,815,896	190,997,373	198,055,672	196,615,696
Other Funds	14,045,185	16,502,805	14,967,465	14,386,845
Federal Funds	553,359,842	704,822,042	535,190,047	644,891,684
Nonlimited	0	0	183,266,138	187,319,482
Total	**754,220,923**	**912,322,220**	**931,479,322**	**1,043,213,707**
FTE	0.00	0.00	0.00	0.00

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 are made for 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 from the U.S. Dept. of Agriculture for nutrition programs and from the U.S. Department of Education for Title 1 compensatory programs, special education, and teacher quality programs.

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 estimated for 2003-05, although it slowed to 2% in 2002-03. At the end of the 2001-03 biennium, the program served about 7,100 eligible children; for 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 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%, but more recent information based on final census data indicates a poverty level of 17.5%. However, it is unclear how events subsequent to the census, specifically the economic recession in Oregon, may have affected the state's actual poverty level.

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 included $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, Grant-in-Aid programs were reduced across-the-board by $2.3 million General Fund due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The February 2003 rebalance reduced certain programs (the Oregon Public Education Network and Junior Achievement) by another $290,000. In total, General Fund support for Grant-in-Aid programs was reduced by $19 million – about 9% - as a result of the statewide General Fund 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. 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.

Legislatively Adopted Budget

The legislatively adopted budget is a 14.3% increase over the 2001-03 legislatively approved budget and a 12% increase over the Governor's budget. Most of each of these increases is due to additional federal resources. General Fund support is increased by 2.9% from the 2001-03 legislatively approved level, but is a 0.7% decrease from the Governor's budget. The budget adopted by the Legislature includes the following:

- $6.8 million General Fund for Early Intervention/Early Childhood Special Education caseload growth, with an additional $6.5 million established as a special purpose appropriation that the agency may request from the Emergency Board upon reporting on caseload growth and federal funds for this program;
- $3.2 million Federal Funds expenditure limitation for transfer of the Even Start Literacy program from the Department of Community Colleges and Workforce Development;
- $651,492 General Fund for partial restoration of funding that had been eliminated from the Governor's budget for the Frontier Learning Network, a mobile classroom and Internet-based program designed to serve students in rural and remote parts of North Central Oregon; and
- $100,000 General Fund for the SMART (Start Making A Reader Today) reading program, which is designed to increase the literacy of young children. The Governor's budget had included $1 million General Fund for statewide expansion of this program. The Legislature approved the $100,000 appropriation for a one-time purchase of books.

The Legislature reduced the budget for the Oregon Public Education Network from $2.0 million to $0.8 million General Fund, representing a 59% reduction of Grant-in-Aid funding for this statewide technology project that helps K-12 schools participate in a coordinated information network and distance learning. The budget no longer contains state support for the following Grant-in-Aid programs: Talented and Gifted, Junior Achievement, Low-Performing Schools, and Workforce Development. Funding for the Student Leadership Centers is continued with $721,466 General Fund.

The Legislature added over $100 million Federal Funds expenditure limitation to the Governor's budget based on updated information on estimated federal resources to be received and distributed to local programs in

2003-05. The Legislature also approved establishment of $187.3 million Nonlimited Federal Funds for nutrition programs. This program previously was budgeted as Limited Federal Funds. Since the program is an entitlement and external conditions beyond the agency's control can cause large fluctuations in expenditures, the program is the type that is more appropriately budgeted as non-limited.

The following table shows the funding levels in the legislatively adopted budget for specific Grant-in-aid programs:

2003-05 Legislatively Adopted 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	21.5	112.7
Oregon Pre-Kindergarten	53.6	0.0	0.0	53.6
Regional Programs	30.5	0.0	10.1	40.6
Long-Term Treatment & Hospital Programs	19.0	12.2	1.9	33.1
Nutrition Programs	0.0	0.0	187.3	187.3
Compensatory Education	0.0	0.0	258.2	258.2
Local & Other Special Education Programs	0.0	0.0	172.7	172.7
Title II Teacher Quality	0.0	0.0	53.5	53.5
Vocational Education	0.0	0.0	26.0	26.0
Other Programs	2.3	2.2	101.0	105.5
TOTAL EXPENDITURES	**196.6**	**14.4**	**832.2**	**1,043.2**

ODE – State School Fund & Other K-12 Grants

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	4,272,212,291	3,802,166,368	4,755,152,014	4,737,607,754
Lottery Funds	295,962,708	614,555,682	222,401,387	452,100,536
Other Funds	193,494,942	268,460,516	73,830,569	17,191,710
Total	**4,761,669,941**	**4,685,182,566**	**5,051,383,970**	**5,206,900,000**
FTE	0.00	0.00	0.00	0.00

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.

Each regular legislative session, the Legislature typically approves modifications to the distribution formula. Changes made by the 2003 Legislature can be found in SB 550. Among other changes, the 2003 Legislature added a high-cost disability grant to the school equalization formula. It also increased the transportation grants for districts with high transportation costs as defined in the bill.

Revenue Sources and Relationships

General Fund represents the primary source of support for the State School Fund. Lottery Funds in 2001-03 included $262 million in transfers from the Education Stability Fund (ESF) and $353 million of net unobligated lottery resources. The Governor's budget did not include any transfers from the ESF, but the 2003 Legislature approved a budget including a $122 million transfer in May 2005 (HB 3642) as well as net unobligated lottery resources of $330 million.

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 deposited into the State School Fund ($20.7 million). For 2001-03, the majority of Other Funds were MUPL resources ($242 million) with the balance of $26 million primarily from local tax revenues.

In the Governor's budget, the sole Other Funds source was Medicaid Upper Payment Limit (MUPL) funds; however, the 2003 Legislature did not include this as a resource for the 2003-05 State School Fund budget. Other Funds in the 2003-05 legislatively adopted budget include local tax revenues deposited in the State School Fund, primarily from property taxes generated from a reduced discount for early payment of such taxes.

Budget Environment

Currently, there are 199 elementary and secondary school districts and 20 education service districts, serving about 550,000 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 about 23% 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. (An 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 2002 legislatively approved reductions to $227 million.

Additionally, during the 2003 session, the Legislature enacted (through SB 859) an 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. This rule reduced the State School Fund budget by another $46.2 million General Fund. This brought total reductions in 2001-03 to $273.2 million. This total does not include an additional $211 million reduction that was intended to be offset by statutory accrual provisions that allow school districts to use 2003-04 state resources to pay for 2002-03 services. (If the $211 million is included, the total reduction is $484.2 million.) The 2003-05 roll-up effect of the permanent reductions in state support was approximately $500 million.

In response to these budget reductions, with most affecting the 2002-03 school year, schools districts reported plans to layoff staff and reduce the number of school days. In Spring 2003, 90 school districts reported that they were cutting days due to budget reductions. Although the average number of days cut was five, some districts, such as Hillsboro at 17 days, were much higher than the average. Thirty-one of those districts reporting fewer school days indicated they would be below the minimum number of hours required in Oregon.

Legislatively Adopted Budget

The 2003 Legislature approved a base amount of $5.2 billion for State School Fund grants to school districts and education service districts (ESDs) in 2003-05. This funding level is essentially the same as that approved by the 2001 Legislature for K-12 support (including the School Improvement Fund) prior to 2002 special session reductions, but it represents an increase of approximately $522 million, or 11%, over the 2001-03 legislatively approved level of $4.7 billion after special session reductions. (If all districts used statutory provisions to accrue, collectively, up to $211 million as revenue for 2002-03 so that 2001-03 resources were $4.9 billion, the 2003-05 adopted budget of $5.2 billion represents a 6.3% increase over 2001-03 resources.)

The adopted budget includes $4.74 billion General Fund, $452.1 million Lottery Funds, and $17.2 million Other Funds from local revenues deposited into the State School Fund. As noted earlier, Lottery Funds include a $122 million transfer to the State School Fund from the Education Stability Fund in May 2005. Also included in Lottery Funds is $67 million that is contingent upon the effects of legislation passed to expand the number of lottery machines at authorized locations and other actions to be taken by the Lottery Commission to increase lottery revenues.

The 2003-05 legislatively adopted budget is about $150 million higher than the $5.05 billion level in the Governor's recommended budget. The Governor's budget of $5.05 billion did not include funding for salary increases nor did it include inflation on services and supplies. The Education Subcommittee of the Joint Committee on Ways and Means discussed at length whether increases in salary and health benefits costs should be included in the budget, noting that bargaining takes place at the local level and that districts and their employees are not bound by the statewide salary freeze. The Subcommittee also discussed the savings from using a school district PERS rate of 11.11% that was approved by the PERS Board for the 2003-05 biennium rather than the 16.71% used in the Governor's budget. And it discussed whether it was reasonable to eliminate the inflation allowance from the State School Fund budget as was done for state agencies. Ultimately, the Legislature did not approve any specific cost factors when it adopted the $5.2 billion budget for schools, although there was general acknowledgement of the lower PERS employer contribution rate. Whether the legislatively adopted budget allows for actual growth in salaries and wages, health benefits costs, inflation, student population changes, and other factors affecting school budgets will depend upon an individual school district's circumstances.

The 2003-05 state support monies, along with property tax and other local funds distributed through the equalization formula, increase revenues available to schools and ESDs above the 2002-03 school year (not including accrued state resources) by 14.4% in 2003-04 and by an additional 2% in 2004-05. If accrued resources are included in the funding total for 2002-03, the increase from 2002-03 to 2003-04 is 7.4 %.

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

($ in millions)													LAB	
	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	03-04	04-05
State funding (a)	626	818	1100	1132	1427	1750	1760	2078(b)	2252(c)	2329(d)	2437(d)	2537(e)	2358(f)	2591	2616(g)
Local funding	1598	1561	1490	1343	1178	902	956	870	888	964	995	1037	1086	1109	1159
Total	2224	2379	2590	2475	2605	2652	2716	2948	3140	3293	3432	3574	3444	3700	3775
Percent change		*7.0%*	*8.9%*	*-4.4%*	*5.3%*	*1.8%*	*2.4%*	*8.5%*	*6.5%*	*4.9%*	*4.2%*	*4.1%*	*-3.6%*	*7.4%*	*2.0%*
STATE SHARE	**28%**	**34%**	**42%**	**46%**	**55%**	**66%**	**65%**	**71%**	**72%**	**71%**	**71%**	**71%**	**69%**	**70%**	**69%**

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

g Does not include potential $100 million in funding generated under legislatively adopted trigger language

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

The statewide average for per-student (weighted) spending in 2003-04 is projected to be $5,289. This is about a 13% increase over the 2002-03 statewide average of $4,700, which reflects special session reductions without any accrued resources. With accrued resources, 2002-03 per student funding is about $5,009. The 2003-04 amount then becomes about a 6% increase. The 2003-04 per student amount of $5,289 is 0.2% below the 2001 close-of-session per-student amount of $5,297 estimated for 2001-02.

To potentially reach a K-12 funding level of $5.3 billion, the Legislative Assembly provided that the State School Fund could receive additional funding if economic recovery occurs. If General Fund growth occurs, and as long as the state's 2003-05 General Fund ending balance is at least $100 million as of the June 2004 forecast, then the State School Fund is eligible to receive 50% of any excess over the $100 million ending balance, until the State School Fund support reaches a total of $5.3 billion. Even absent any General Fund growth, if lottery revenues exceed those allocated by the Legislative Assembly during the 2003 regular session, the State School Fund will receive 100% of the excess net lottery revenues up to a capped amount. Thus, an additional $100 million over the legislatively adopted budget could be from the General Fund, lottery revenues, or both. On the other hand, if the temporary graduated income tax assessments adopted by the Legislature in HB 2152 are rescinded through a voter referral, then $284.6 million will be disappropriated from the State School Fund based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories, including the State School Fund, may be implemented by the Governor.

The legislatively adopted budget also includes $400,000 General Fund for matching grants to qualifying districts that have passed local option levies.

ODE – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	5,030,978	56,000,000	56,162,890	55,699,162
Other Funds	35,738,765	3,555,414	3,389,486	3,853,214
Total	**40,769,743**	**59,555,414**	**59,552,376**	**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 was primarily from lottery funds and interest earnings on the Education Stability Fund, with a small amount from other interest earnings. The Governor's budget assumed use of approximately $7 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, due to a transfer of principal from the Education Stability Fund to the State School Fund as well as lower interest rates.

Legislatively Adopted Budget

The legislatively adopted budget provides $53.3 million Lottery Funds, $2.4 million in Education Stability Fund interest earnings (these are reflected as Lottery Funds), and $3.9 million in other interest income for debt service.

Current estimates of interest earnings on debt service-related accounts are about $0.5 million higher than the estimates used in development of the Governor's budget, thus reducing the requirement for Lottery Funds. However, within total Lottery Funds, estimates of interest earnings on the Education Stability Fund have decreased by about $5 million, due to the transfer of $112 million from the Education Stability Fund to the State School Fund at the end of the 2001-03 biennium and due to lower interest rates. This results in an increased need for general lottery resources.

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	111,896,927	3,058,672	93,679,467	84,379,467
Other Funds	0	191,658,978	131,093,366	128,391,300
Total	**111,896,927**	**194,717,650**	**224,772,833**	**212,770,767**

The tables for OHSU only show expenditures of state funds in the OHSU budget. Total OHSU expenditures for operations in the 2003-05 biennium are projected to exceed $2.4 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 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 an additional 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 provided about 5.5% of OHSU's unrestricted revenues in the 2001-03 biennium.

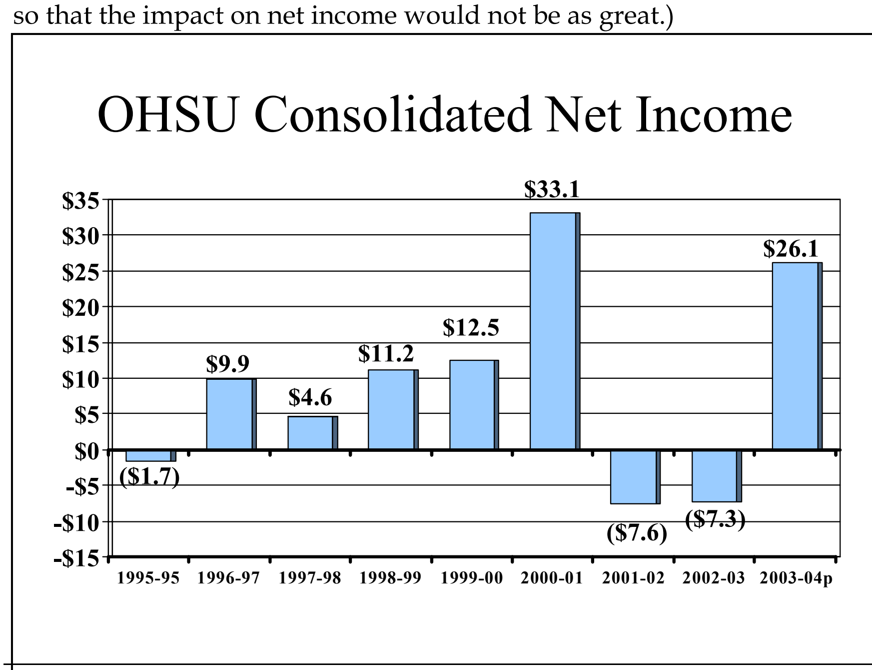
For the 2003-05 biennium, the largest source of revenue in the OHSU budget is the net medical service fee revenue generated by the hospitals and clinics, projected to total over $1.2 billion per biennium and to contribute 51% of total operating revenue. Another 37% of operating revenue comes from gifts, grants, and contracts. State support is projected to fall to only 3.6% of total operating revenue, student tuition and fees will

contribute 3%, and the sales and services of education departments will contribute another 2%. The remainder is divided among various miscellaneous revenue sources.
OHSU has significantly expanded its operations in the first seven years since its organization 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 a $250 million bond to finance a hospital expansion and the development of property in Portland's North Macadam district. This bond is in addition to a $200 million bond being issued by the state, and the debt service on it 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 below 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 2003-04 fiscal year were reduced by $26.1 million, and the university did not change its expenditures, it would show a fiscal year 2003-04 net income of zero. (In reality, the institution would reduce some expenditures if state support were lowered, so that the impact on net income would not be as great.)



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 $48 million per biennium. The university covers about half 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 $11.4 million in the 2003-04 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 based 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 currently budgeted $26.1 million level to approximately $37.5 million per 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 to 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.

Legislatively Adopted Budget

The legislatively adopted budget contains $85.8 million in direct state support for OHSU’s education and clinical programs, and for the CDRC. This total includes $84.4 million General Fund and $1.4 million from the Criminal Fines and Assessment Account. The Criminal Fines and Assessment Account (CFAA) funds are dedicated to support the Oregon Poison Center. The CFAA funds are not sufficient to cover the entire cost of operating the Oregon Poison Center, but OHSU will use General Fund money and other hospital revenues to continue existing Oregon Poison Center services through the biennium.

The adopted level of direct state support is a decrease of $10.2 million (or 10.6%) from the 2001-03 biennium level that remained after special session and rebalance reductions, and a decrease of $18.8 million (or 18%) from the 2001-03 biennium level originally adopted in the 2001 session. It also represents a 23.3% decline from the funding provided in the 1999-01 biennium. The adopted budget does not specify how the General Fund support must be spent. The OHSU Board of Directors will determine the distribution of the state support dollars and determine whether program reductions are necessary as a result of the decline in state funding. The budget does, however, contain certain stipulations that the Board must apply toward expenditure of the state funds. These stipulations are that:

- A minimum of $11 million of General Fund support must be allocated for the direct expenses of the School of Nursing. This reflects a smaller funding cut for this program than for other programs receiving General Fund support. The adopted budget reduced General Fund support to OHSU by 10% from the level that the Governor had recommended. The $11 million figure, however, reflects only a 5% reduction from the level OHSU would have allocated under the Governor’s recommended budget.
- OHSU must expand enrollment in Nursing programs and at least maintain enrollment levels in the MD and DMD programs. Tuition rate increases and other sources of revenue will be used to accomplish this.
- The services of the Oregon Poison Center must be maintained throughout the biennium.

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 will determine how these funds will be distributed among various programs as it works to conform to its five-year financial plan.

The Governor's budget also included $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, would give the institution the maximum $200 million of proceeds approved by voters at the May 2002 election. The state would not provide additional bond proceeds for the Oregon Opportunity program in subsequent biennia. The adopted budget supports the transfer of these proceeds. The Legislature delayed the bond issue by three months, however, and restructured the issue so that all 2003-05 biennium debt service costs would be paid with bond proceeds, thereby freeing up $10.8 million of Tobacco Master Settlement Account (MSA) funds for other uses.

The OHSU budget is also affected by funding for Medicaid programs in the adopted budget. A brief discussion of this impact is included in the following program area discussion. Legislative changes to the Governor's original Medicaid proposal will add approximately $27.5 million to OHSU's 2003-05 biennium clinical revenues.

OHSU – Education and General/Hospitals and Clinics/CDRC

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	111,896,927	3,058,672	93,679,467	84,379,467
Other Funds	0	92,919,599	0	1,400,000
Total	**111,896,927**	**95,978,271**	**93,679,467**	**85,779,467**

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 an 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.

Note that none of the other funds discussed here appear in the table above, since none of these funds enter into the state budget as shown for OHSU.

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 5% of the School of Medicine's budget, but cover 29% of the School of Nursing's budget. The figure for the School of Dentistry is 24%. 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.

Legislatively Adopted Budget

The Governor's budget included $93.7 million in direct state support (all General Fund) for OHSU's education and clinical programs, and for the CDRC. The Legislature reduced General Fund support by $9.3 million (approximately 10%). Because OHSU is not a state agency, the standard adjustments applied to state agency budgets were not made to the OHSU grant. That is, there were no specific adjustments for compensation rate freezes, vacancy savings, or to reflect reduced PERS contribution rates. 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 will determine how these funds will be distributed among its various programs, subject to certain stipulations. These stipulations are listed in the legislatively adopted budget discussion in the "Agency Total" section above.

The budget also includes $1.4 million of Other Funds from the Criminal Fines and Assessments Account (CFAA), for a total of $85.8 million in direct state support payments. This is a reduction of $7.9 million from the level in the Governor's budget, and a decline of $18.8 million from the level originally approved for the 2001-03 biennium. The CFAA funds are dedicated to support of the Oregon Poison Center. OHSU announced during the session that because of the proposed reduction in direct state support payments, it would shut down the Poison Center, and requested an additional $2.8 million to fund the Center's operations in the 2003-05 biennium. The Legislature instead offered to provide an additional $1.4 million, if OHSU committed to continuing the Oregon Poison Center's existing services through the 2003-05 biennium. OHSU agreed and will support the Center out of the $1.4 million CFAA allocation and out of General Fund and other revenues available in its Hospital budget.

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 were proposed in the Governor's budget. Because OHSU serves a disproportionate share of Medicaid patients, funding changes proposed for that program have a major effect on its revenue. The university estimated that the changes proposed in the Governor's budget would 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 proposed decline in direct state support. Of the various Medicaid reimbursement changes, the elimination of presumptive eligibility would have had 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. If presumptive eligibility had been repealed, the Oregon Health Plan would have only covered services after patients had enrolled.

The Legislature restored a number of proposed Medicaid cuts in the legislatively adopted budget. For example, the budget does not eliminate presumptive eligibility. In total, the changes that the Legislature made to the Governor's proposals for the Medicaid program will result in a net addition of $27.5 million to OHSU in the 2003-05 biennium. The funds will be generated through a Hospital Provider Tax. Note that none of these funds appear in any of the figures shown here, which are limited to direct state support monies only. Nonetheless, this $27.5 million addition clearly dwarfs the $7.9 million that the Legislature cut from the Governor's budget in direct state support. The budget that the Legislature passed was, therefore, more favorable to OHSU than the one originally proposed at the start of the session.

OHSU – Oregon Opportunity Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	0	93,651,594	106,298,400	106,298,400
Total	**0**	**93,651,594**	**106,298,400**	**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 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 $9.6 million.

Legislatively Adopted Budget

The legislatively adopted budget supports the second issue of Article XI-L bonds as envisioned in the implementing legislation for the Oregon Opportunity program. The bonds will 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 entirely paid, during the 2003-05 biennium, from bond proceeds. In future biennia, however, debt service will be paid entirely with Tobacco MSA funds. The Legislature delayed the bond issue by three months, to December 2003, and restructured the bond sale to require all bond-related costs in the 2003-05 biennium to be paid with bond proceeds, in order to reduce the amount of Tobacco MSA funds that needed to be spent on debt service this biennium.

OHSU – Bond-related Costs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	0
Other Funds	0	5,087,785	24,794,966	20,692,900
Total	**0**	**5,087,785**	**24,794,966**	**20,692,900**

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 MSA. One series of bonds were issued during the 2001-03 biennium, and a second (and final) series will be issued in 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.

Legislatively Adopted Budget

The Governor's budget supported 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 supported $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 was to be paid from the proceeds of the second bond sale, and the remaining $10.8 million with Tobacco MSA funds.

The legislatively adopted budget also supports the second issue of Article XI-L bonds, but requires that the issue be restructured to allow all debt service costs due in 2003-05 to be paid from bond proceeds. The purpose of the restructure is to eliminate the requirement for the $10.8 million in Tobacco MSA funds that would have otherwise been needed to cover debt service. The elimination of this requirement allowed the Tobacco MSA funds to be used to address other budgetary needs. The cost of the restructure was to require a larger bond issue than would otherwise have been the case, to ensure sufficient proceeds to cover 2003-05 debt service obligations. To reduce this additional cost, the budget delays the bond issue by three months, to December 2003. As a combined result of the capitalization of 2003-05 debt service costs, and the delay in the bond issue, the total par amount of the bond is 6% higher in the adopted budget than it had been in the Governor's proposal. Thus, debt service costs will be 6% higher over the life of the issue, equivalent to an approximately $1 million per biennium increase beginning in 2005-07.

Department of Higher Education (DHED) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	755,057,213	746,093,033	779,884,024	678,947,125
Lottery Funds	4,551,761	5,966,271	8,844,960	8,123,462
Other Funds	886,497,062	1,341,647,412	1,249,350,881	1,478,611,558
Nonlimited	1,413,451,455	1,803,802,145	1,985,931,713	1,986,258,008
Total	**3,059,557,491**	**3,897,508,861**	**4,024,011,578**	**4,151,940,153**
FTE	11,469.52	11,786.42	11,819.49	12,092.26

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.

Legislatively Adopted Budget

The legislatively adopted budget contains General Fund support for only one new program – Signature Research Centers. General Fund support for the Department overall is reduced by $155 million (or 18.3%) 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 $67 million (or 8.6%) below the level of support that remained in the 2001-03 biennium budget after the five 2002 special legislative sessions and rebalance actions, and $101 million (or 12.9%) below the level in the Governor's budget proposal. Nonetheless, the adopted budget added $229 million of Other Funds expenditure limitation to the level the Governor proposed. The additional funds are generated primarily from tuition and fee rates exceeding those included in the Governor's budget.

In the operating budget (excluding debt service), Other Funds revenues supporting these expenditures are combined with General Fund to support operating expenses. In this portion of the Department budget, the Legislature reduced General Fund by $104 million and increased Other Funds by $137 million, thereby effectively increasing the operating budget (excluding debt service) by $33 million over the level in the Governor's budget proposal. Associated with this increase, the adopted budget also adds 272 positions (272.76 FTE) to the Governor's budget (and 305.84 FTE to the 2001-03 biennium number).

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 Legislature then made numerous adjustments to the Governor's General Fund recommendation. Primarily, these consisted of a combination of standard reductions applied to all state agencies, and of additional reductions applied specifically to the Education and General portion of the Department's budget. The standard reductions eliminated General Fund budgeted: a) to cover the impact of inflation on services, supplies, and capital outlay costs; b) to pay for vacant positions under the assumptions that some of these positions would not be filled; c) to pay state government service charges and assessments that would not be billed because of reductions in assessment rates; and d) to pay for PERS contributions costs for covered employees that were eliminated through reform legislation. The standard reductions reduced General Fund to the Department by $37.5 million. In addition, the budget made $68 million of General Fund specific reductions to the Education and General budget and $1 million to the Capital Construction budget. These reductions are described in detail under the associated program area sections.

DHED – Education and General Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	626,164,582	617,133,967	649,720,822	550,720,558
Other Funds	600,781,345	725,205,739	850,551,113	990,707,996
Nonlimited	743,947,658	1,120,279,788	1,135,532,703	1,135,532,703
Total	**1,970,893,585**	**2,462,619,494**	**2,635,804,638**	**2,676,961,257**
FTE	8,756.50	9,079.29	8,970.23	9,290.80

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.

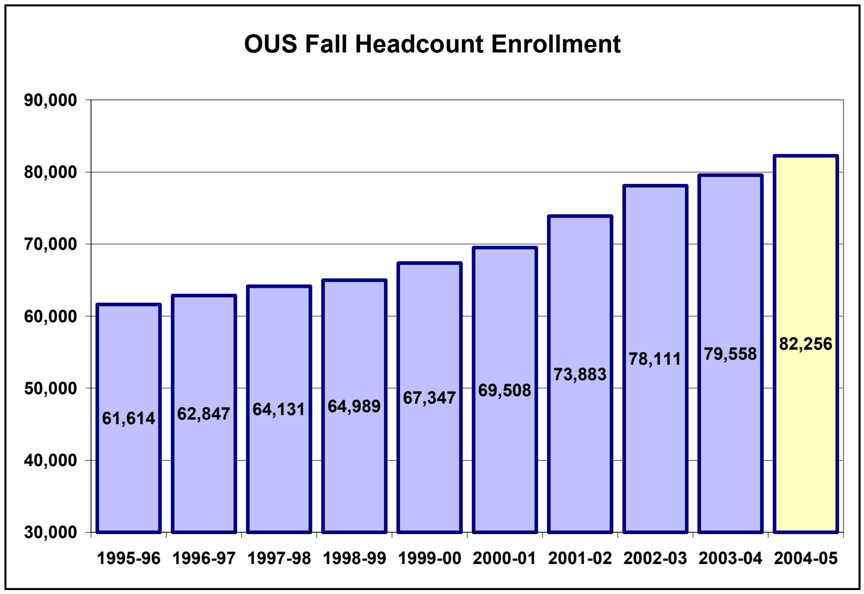
Nonlimited funds include gifts, and sponsored research financed by the federal government, private industry, and other private groups. These nonlimited funds, the major source of support for research, also directly benefit and enhance the instruction and research programs supported by the General Fund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

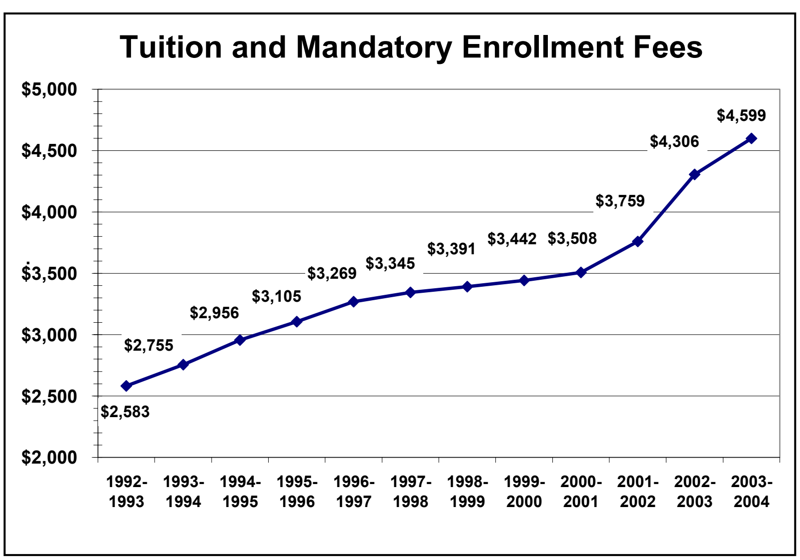
In 1999, the Legislature increased General Fund support of the Education and General Program by 22%. This included $106.8 million of General Fund enhancements. Of this total, $15.3 million resulted in no additional revenue for the budget, since it was used to freeze tuition rates for resident undergraduates. 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 1990s 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 two years of the biennium.

Tuition and other mandatory enrollment fees increased rapidly in the early 1990s. 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, shown in the above table, will increase a further 6.8% by Spring Term 2004.

Legislatively Adopted Budget

The General Fund support level in the Governor's budget was 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 included additional reductions beyond these. There were 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 were not identified for any specific programs in the Governor's budget and would have, therefore, been distributed among programs by the Department. General Fund and Other Funds were reduced 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 was to be supported by a 2% per annum tuition rate increase on resident students.

In addition to the 2% per annum tuition rate increase for resident students, the Governor's budget included a 3.5% per annum tuition rate increase for nonresident students. The Other Funds expenditure limitation was increased $22.4 million to allow expenditure of the revenue from this increase. The budget also added Other Funds expenditure limitation 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 limitation to accommodate revenue increases expected (at the Governor's approved tuition rates) from 2003-05 enrollment growth over 2002-03 levels. Finally, there was 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 provided a General Fund appropriation that was $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 were $109.3 million (or 8.0%) above the level approved during the 2001 regular session.

The Governor's budget did not, however, provide sufficient Other Funds expenditure limitation to allow all projected tuition and fee revenue to be spent. This was 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 were 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 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, and will maintain this percentage even at the reduced level of General Fund support in the legislatively adopted budget. This means that institutions will not receive General Fund support for all of their projected fundable enrollments. Instead, they will need to fund some enrollments entirely from tuition and fee income.

The legislatively adopted budget is described below in additional detail:

- Limited Budget – The limited budget includes expenditures of both General Fund and the Other Fund revenues (primarily tuition and fees) that are combined with General Fund to support Education and General operations. The adopted budget authorizes sufficient expenditures to preserve Education and General services, although continued enrollment growth and other cost increases will pressure campus and central budgets and limit the capability to finance new initiatives. The Legislature increased the limited budget for Education and General Services by $41.1 million (or 2.8%) over the level the Governor had proposed. The adopted budget is also $150.4 million (or 11.1%) above the level originally approved for the prior biennium in the 2001 regular session. The $41.1 million net increase over the Governor's budget is generated through a $140 million Other Funds increase offset by a $99 million General Fund reduction. Although the budget provides for a funding increase over the prior biennium, the source of funds is changed by the substitution of Other Funds for General Fund. General Fund supports 36% of expenditures, compared to 53% supported by tuition and other student fees, and the remainder from fund balances and various other Other Funds revenue sources. As recently as the 1999-01 biennium, General Fund supported 51% of Education and General expenditures. The shift makes OUS funding more dependent on enrollment levels, i.e., any unanticipated enrollment changes will have a greater proportional budgetary impact than in the past.

- General Fund – the Governor's budget level was reduced by a net $99 million (and is down a total of $143.8 million, or 20.7%, from the level originally approved for 2001-03 biennium in the 2001 regular session).

- General Fund Enhancements – The $99 million reduction in General Fund is the net impact of $100 million in reductions offset by $1.1 million in enhancements for new programs. The $1.1 million in enhancements (the only funding enhancements in the DHED operating budget), includes $1 million for operating new Signature Research Centers to support research programs in Multi-scale Materials and Devices at the University of Oregon, Oregon State University, and Portland State University; and $100,000 in new funding for the Oregon Council for Knowledge and Economic Development. (The budget also includes a $40 million Other Funds enhancement for capital projects related to the Signature Research Centers initiative.)

- General Fund Reductions – The $100 million in General Fund reductions from the level in the Governor's budget are specified primarily for funding distributions supported by the Resource Allocation Model. The major reductions from the Governor's budget proposal include $32 million in standard reductions applied to all state agency budgets, and $68 million in additional reductions made specifically to the Education and General budget.

- Standard General Fund Reductions – The $32 million of reductions for standard adjustments made to all state agency budgets consists of:
    - PERS Rate Reductions – a $15.8 million General Fund reduction was made to reflect the impact on compensation costs of a reduction in the PERS contribution rate resulting from PERS reform measures and from the refinance of the PERS liability. Both the PERS reform and refinance were components of the statewide 2003-05 legislatively adopted budget. Note that Other Funds were also reduced by $14 million to reflect PERS rate reductions. This $14 million is transferred to the General Fund. The $14 million is less than the estimated impact of the PERS rate reduction on Other Funds expenses. The total estimated Other Funds savings to the Department are $29.9 million. The Other Funds reduction was limited to $14 million, however, to preserve Department fund balances, and to allow the remaining savings ($15.9 million) to be applied toward OUS expenses.
    - Vacancy Savings – a $10.4 million General Fund reduction was made as an estimate of General Fund savings the Department could realize through not filling some vacant positions in the 2003-05 biennium. The particular positions are not identified, and the Other Funds expenditures on these positions were not eliminated. Vacancy savings was a standard reduction taken in all state agency budgets, although generally the particular positions were actually eliminated and any Other or Federal Funds support for them was cut. The state does not, however, establish and fund positions in the Department of Higher Education as it does for other state agencies. Instead, the state provides General Fund and allows Other Funds to be spent on employee compensation, and grants the Department authority to establish and eliminate positions throughout the Oregon University System. In order to treat the Department's budget as comparably to other state agency budgets as possible, the reduction amount was calculated based on the average rate of savings approved in

other state agency budgets as a result of review of vacant positions. An additional $1 million General Fund reduction was added to this calculation to help balance the state General Fund budget, yielding the $10.4 million total reduction. No Other Funds reduction was taken, however, consistent with a decision to allow the agency to spend the Other Funds projected under the proposed tuition and fee schedules.

  - Elimination of Inflation Funding – $4.9 million of General Fund – that was included in the Governor's budget to cover the impact of inflation on service and supplies and capital outlay expenses – was eliminated.
  - State Government Service Charge adjustments – approximately $1 million of General Fund for state government service charges was eliminated when reductions in charge and assessment rates made the funding unnecessary.

- Agency-specific General Fund Reductions – The $68 million of additional General Fund reductions in the Education and General budget included:
  - Undergraduate and Graduate Cell Value Funding (-$50.6 million)
  - Administrative Expenses (-$8 million, including a $2.4 million reduction in the Chancellor's Office budget, and a $4 million reduction for campus administration)
  - Information Technology (-$5 million, replaced with $5 million of COP authority)
  - Engineering Education (ETIC) (-$0.9 million)
  - Systemwide expenses (-$0.72 million)
  - Research support (-$0.51 million)
  - Remaining reductions of less than $500,000 each (-$2.24 million)

- Conditional General Fund Reductions – If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral, then $7.5 million of General Fund will be disappropriated from the appropriation to Education and General Services, based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor.

- Other Funds Increases – Other Funds expenditures were increased by $140 million (or 16.5%) above the level in the Governor's budget. This is also equivalent to a $266 million (or 36.6%) increase above the level originally approved for the prior biennium in the 2001 regular session. This increase is supported from increased tuition and fee revenue, and by the use of Other Funds fund balances. Tuition revenue increases resulted from rates increases above the level in the Governor's budget, and from enrollment increases above the level projected in the Governor's budget. Tuition and fee rates are set by the State Board of Higher Education, not by the Legislature. The State Board approved the increased tuition and fee rates during the legislative session. The budget was then crafted around a policy decision to allow all of the revenues that would be generated through these rate increases to be spent.

The Governor's budget had provided sufficient Other Funds expenditure limitation to allow expenditure of tuition and fee revenue that would have been generated from tuition rate increases of 2% per year (3.5% per year for non-residents) over the levels that had been in place at the start of the 2002-03 academic year. The total amount of expenditures included was $780 million. Because OUS increased tuition rates in the Spring Term of the 2002-03 academic year after the income tax increase proposed in Measure 28 failed at the polls and after the Governor applied additional allotment reductions to reduce the projected General Fund surplus, the tuition rates in the Governor's budget for the 2003-05 biennium were actually *less* than those already being charged by the end of the 2002-03 academic year.

Subsequently, however, the State Board of Higher Education considered tuition rates for the two academic years of the 2003-05 biennium, and approved further increases over the Spring 2003 rates. Tuition rates increases of approximately 6.8% were approved for the 2003-04 academic year, with further increases proposed for the second year.

The legislatively adopted budget accommodates expenditures of the revenues projected from these approved and projected tuition rates, which are projected to total approximately $886 million. Therefore, the Legislature added $105 million of Other Funds to the Education and General budget for tuition-funded expenditures above the Governor's level. Another $50 million was added to allow the Department to use fund balances to support expenditures in the Education and General budget. The actual drawdown on fund balances is only $12 million – the Governor's budget would have increased fund balances by $38 million – hence the $50 million addition noted above. In addition, the budget transfers a maximum of $14 million of fund balances to the General Fund, resulting in total fund balance reductions of $28 million in Education and General fund balances. Certain other Other Funds revenues projections declined from the levels projected by the Governor, yielding a net $140 million increase in the Other Funds.

DHED – Fee Remissions

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

Legislatively Adopted Budget

Fee remissions are no longer shown in this separate program area. The Governor's budget, however, supported $58.8 million of Programmatic fee remissions, and $41.2 million of Graduate fee remissions, in the 2003-05 biennium. The Legislature increased these to $65 million of Programmatic fee remissions, and $47 million of Graduate fee remissions. The $65 million for Programmatic fee remissions represents a $5 million reduction from the amount the Department had requested, early in the session, as necessary because of the tuition rates being proposed. Late in the session, the Department increased its request to $72.6 million for Programmatic fee remissions, but the Legislature maintained the $65 million limitation to preserve funding of programs. A budget note allows the Department to offer fee remissions in excess of the amounts in the budget, but only if enrollments exceed projections (i.e., not in response to any further tuition rates increases), and only if reported to the Emergency Board or Legislature prior to the excess remissions being offered. Finally, the budget note indicates that Programmatic fee remission totals are not to exceed 8% of gross tuition revenue.

DHED – Agricultural Experiment Station

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	53,289,532	51,146,706	53,215,953	50,238,500
Other Funds	10,317,290	15,550,572	16,561,819	16,390,171
Nonlimited	38,413,217	50,218,921	52,563,479	52,563,479
Total	**102,020,039**	**116,916,199**	**122,341,251**	**119,192,150**
FTE	653.56	653.56	618.41	610.42

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.

Legislatively Adopted Budget

The General Fund support level in the Governor's budget was 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 included an additional reduction. There were 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 were rolled up to a $528,109 General Fund cut, and the 2002 fifth special session reduction was 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 were not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Station. Finally, General Fund and Other Funds were reduced to eliminate funding for step (merit) increases for classified employees.

The Legislature further reduced General Fund support for the Agricultural Experiment Station through the application of certain standard reductions made to all state agency budgets. Unlike the Education and General program area, however, there were no specific reductions added to the standard reductions. The legislatively adopted General Fund reductions to the Governor's recommended budget level totaled $3 million, and consisted of the following components: $1.5 million to reflect reduced compensation costs resulting from PERS reform and from the refinance of the PERS liability, $1 million through application of a vacancy savings factor (discussed in more detail in the Education and General program area budget description), and approximately $400,000 from the elimination of General Fund that was included in the Governor's budget to cover the impact of inflation on services and supplies costs. (Note: components do not sum to $3 million because of rounding.) The budget made some exceptions from the way these standard reductions were generally applied to other state agency budgets. With the exception of an Other Funds reduction of approximately $170,000 for inflation funding, the Other Funds expenditure limitation was not otherwise reduced to reflect PERS-related costs or vacancy savings. This exception was made as part of a policy decision to allow the Department, generally, to spend all of the Other Funds revenue available to it, to help mitigate the impact of General Fund reductions on Oregon University System operations.

The combined effect of these reductions is to provide a General Fund appropriation that is $6.8 million (or 11.9%) below the level approved during the 2001 regular session before special session cuts, and that is 1.8% below the level that was available in 2001-03 biennium after the special session and allotment cuts. Because no tuition revenues accrue to the Agricultural Experiment Station budget, Other Funds revenue growth is modest. Unlike the Education and General program – where Other Funds (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 $5.5 million (or 7.6%) below the level approved during the 2001 regular session.

DHED – Extension Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	36,349,516	35,323,280	37,317,496	35,123,305
Other Funds	21,216,040	27,988,320	29,778,965	27,177,395
Nonlimited	10,715,226	15,850,267	16,818,547	16,818,547
Total	**68,280,782**	**79,161,867**	**83,915,008**	**79,119,247**
FTE	450.12	450.12	503.09	464.28

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.

Legislatively Adopted Budget

The General Fund support level in the Governor's budget was 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 included an additional reduction. There were 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 were rolled up to a $351,121 General Fund cut, and the 2002 fifth special session reduction was 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 were not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Service. Finally, General Fund and Other Funds were reduced to eliminate funding for step (merit) increases for classified employees.

The Legislature further reduced General Fund support for the Extension Service through the application of certain standard reductions made to all state agency budgets. Unlike the Education and General program area, however, there were no specific General Fund reductions added to the standard reductions. The legislatively adopted General Fund reductions to the Governor's recommended budget level totaled $2.2 million, and consisted of the following components: $1.3 million to reflect reduced compensation costs resulting from PERS reform and from the refinance of the PERS liability, approximately $800,000 through application of a vacancy savings factor (discussed in more detail in the Education and General program area budget description), and approximately $140,000 from the elimination of General Fund that was included in the Governor's budget to cover the impact of inflation on services and supplies costs. The budget made some exceptions from the way these standard reductions were generally applied to other state agency budgets. With the exception of an Other Funds reduction of approximately $100,000 for inflation funding, the Other Funds expenditure limitation was not otherwise reduced to reflect PERS-related costs or vacancy savings. This exception was made as part of a policy decision to allow the Department, generally, to spend all of the Other Funds revenue available to it, to help mitigate the impact of General Fund reductions on Oregon University System operations. An additional Other Funds reduction of $2.5 million was made, however, to reflect an updated understanding of the Other Funds resources actually available to the Service. The Governor's budget had included these expenditures that were to be financed by spending down fund balances. Sufficient fund balances are not available, however, so the expenditure reduction was made, and 34 positions (32.81 FTE) that were to have been supported by the expenditures were eliminated.

The combined effect of these reductions is to provide a General Fund appropriation that is $4.25 million (or 10.8%) below the level approved during the 2001 regular session before special session cuts. Although no tuition revenues accrue to the Extension Service budget, Other Funds revenue growth is sufficient to offset this reduction, due to increased county contributions and increased federal revenues for Homeland Security research. Including these Other Funds, the legislatively adopted budget shows combined General Fund and Other Funds in the limited budget increasing by $500,000 (or 0.8%) above the level approved during the 2001 regular session, though down 1.6% from levels actually budgeted for the 2001-03 biennium after Emergency Board and special session adjustments.

DHED – Forest Research Laboratory

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,069,471	5,025,056	5,240,380	4,938,639
Other Funds	6,149,189	9,105,921	9,782,197	9,757,876
Nonlimited	19,287,514	22,886,750	24,112,272	24,112,272
Total	**30,506,174**	**37,017,727**	**39,134,849**	**38,808,787**
FTE	185.55	179.66	197.76	196.76

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.

Legislatively Adopted Budget

The General Fund support level in the Governor's budget was 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 included an additional reduction. There were 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 were rolled up to a $93,699 General Fund cut, and the 2002 fifth special session reduction was multiplied by a factor of 2.27 for a $433,555 General Fund reduction in the 2003-05 biennium. The fifth special session cuts were not identified for any specific programs in the Governor's budget and will therefore be distributed among programs by the Laboratory. Finally, General Fund and Other Funds were reduced to eliminate funding for step (merit) increases for classified employees.

The Legislature further reduced General Fund support for the Forest Research Laboratory through the application of certain standard reductions made to all state agency budgets. Unlike the Education and General program area, however, there were no specific reductions added to the standard reductions. The legislatively adopted General Fund reductions to the Governor's recommended budget level totaled about $300,000, and consisted of the following components: approximately $168,000 to reflect reduced compensation costs resulting from PERS reform and from the refinance of the PERS liability, about $110,000 through application of a vacancy savings factor (discussed in more detail in the Education and General program area budget description), and approximately $24,000 from the elimination of General Fund that was included in the Governor's budget to cover the impact of inflation on services and supplies costs. The budget made some exceptions from the way these standard reductions were generally applied to other state agency budgets. With the exception of an Other Funds reduction of approximately $24,000 for inflation funding, the Other Funds expenditure limitation was not otherwise reduced to reflect PERS-related costs or vacancy savings. This exception was made as part of a policy decision to allow the Department, generally, to spend all of the Other Funds revenue available to it, to help mitigate the impact of General Fund reductions on Oregon University System operations.

The combined effect of these reductions is to provide a General Fund appropriation that is $700,000 (or 12.5%) 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 Funds revenue growth is modest. Nonetheless, as in the Education and General program – where Other Funds (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 $147,000 (or 1%), above the level approved during the 2001 regular session. The level of Other Funds expenditures was dependent on an approved extension of the sunset of the Forest Products Harvest Tax.

DHED – Sports Action Lottery

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	4,551,761	5,408,887	4,712,936	4,902,324
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.

Legislatively Adopted Budget

The expenditure limitation is set equal to the projected revenue, and represents essentially flat expenditures at the actual 2001-03 biennium revenue. The small increase approved to the Governor's recommended budget merely reflects updated projections of Sports Action lottery game revenue.

DHED – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	18,317,636	21,547,547	21,869,520	26,406,270
Lottery Funds	0	557,384	4,132,024	3,221,138
Nonlimited	72,142,007	68,126,333	88,431,180	88,757,475
Total	**90,459,643**	**90,231,264**	**114,432,724**	**118,384,883**
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.

Legislatively Adopted Budget

State-paid (General Fund plus Lottery Funds) debt service costs are budgeted at a 34% 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. The Legislature added approximately $4.5 million more General Fund for debt service than had been included in the Governor's budget. These funds, needed to pay debt service on Article XI-G bonds issued in the 2001-03 biennium, had been omitted from the Governor's budget in error. Minor changes were also made to Lottery Funds and Nonlimited Funds to reflect debt service cost projections that were revised during the session. Debt service payments for capital construction projects approved for this biennium (see next section) will first appear in the agency's 2005-07 biennial budget.

DHED – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	15,866,476	15,916,477	12,519,853	11,519,853
Other Funds	248,033,198	474,206,860	342,676,787	434,578,120
Total	**263,899,674**	**490,123,337**	**355,196,640**	**446,097,973**
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.

Legislatively Adopted Budget

The Governor's budget included 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 were not approved for any other project. A total of 26 specified projects were approved on five campuses. Most of these are at least partially funded with Article XI-F(1) bonds. The budget only included projects where Article XI-F(1) projects are financed from dedicated revenue streams. Projects that would impose debt service costs on campus operating budgets were excluded.

The Legislature approved $446.1 million of capital construction projects for the Department of Higher Education. The projects will be funded from a number of sources, including various categories of bonds, gifts, grants and other revenues, and direct General Fund appropriation. A total of $11.5 million General Fund ($1 million less than the Governor proposed) was appropriated to support academic modernization, capital repair, deferred maintenance, and code and safety compliance projects.

The bonds approved for higher education capital construction projects can be broadly categorized into two groups: state-supported debt and self-supported debt. State-supported debt is repaid with state discretionary funds, including General Fund and Lottery Funds. The budget authorizes $275.7 million in bonds, including $32.5 million of state-supported debt. The remaining $243.2 million of debt is self-supported debt paid by student building fees and Oregon University System auxiliary enterprise income.

The capital construction budget includes $377.1 million for thirty specified projects at four of the Oregon University System's campuses, plus $69 million in various system-wide authorizations for projects not specifically identified. All projects are financed without state-supported debt, except for $12.5 million of Article XI-G bonds for academic modernization, capital repair, deferred maintenance, and code and safety compliance projects, and $10 million of Article XI-G bonds and $10 million of Lottery Bonds for Signature Research Center projects at the University of Oregon, Oregon State University, and Portland State University. Only the debt for academic modernization, capital repair, deferred maintenance, and code and safety compliance projects was included in the Governor's budget. The Signature Research Center projects were added by the Legislature.

This total of $32.5 million in state-supported debt is a 70% reduction from the $109.9 million approved for the Department of Higher Education in the 2001 session. Of the remaining projects funded entirely by self-supported debt and other revenues, the largest is a $110 million expansion of Reser Stadium at Oregon State University.

The complete list of proposed projects is shown in the following table. Additions to and funding changes from the Governor's budget are shown in **bold type**. Amounts not shown in bold type were unchanged:

Department of Higher Education

2003-05 Capital Construction Budget

PROJECT LIST	General Fund	Article XI-G Bonds	Article XI-F(1) Bonds	Lottery Bonds	Other Revenues	Total
(1) Oregon University System						
(a) Academic modernization, capital repair, deferred maintenance, code and safety compliance	**11,519,853**	12,519,853	**20,000,000**		**10,000,000**	$54,039,706
(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 **3**			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
(i) Graf Hall and adjacent buildings remodel		**4,750,000**		**4,750,000**	**9,500,000**	**$19,000,000**
(j) College of Veterinary Medicine addition					**2,200,000**	**$2,200,000**
(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
(h) Center for nanoscience and nanotechnology		**500,000**		**500,000**	**1,000,000**	**$2,000,000**
(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
(j) Integrative science complex		**4,750,000**		**4,750,000**	**9,500,000**	**$19,000,000**
(k) Theatre complex					**6,360,000**	**$6,360,000**
(6) Project reserve			**2,612,667**		**1,625,600**	**$4,238,267**
GRAND TOTALS	**$11,519,853**	**$22,519,853**	**$243,212,667**	**$10,000,000**	**$158,845,600**	**$446,097,973**
# of Projects using funding source	1	4	22	3	17	33

DHED – Other Services (Nonlimited)

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

Legislatively Adopted Budget

The legislatively adopted budget anticipates an Other Services (Nonlimited) expenditures increase of 10.3% over the prior biennium level. These expenditures are difficult to project with accuracy, however, and since they are Nonlimited they may end up varying significantly from the projected amounts without any legislative action.

Oregon Student Assistance Commission (OSAC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	33,466,514	35,891,653	34,125,819	44,845,597
Lottery Funds	5,066,421	2,965,741	3,726,802	647,977
Other Funds	13,489,842	16,339,223	17,102,997	15,343,263
Federal Funds	867,253	1,762,084	1,425,468	1,239,605
Nonlimited	43,701,989	50,511,609	54,174,750	54,174,750
Total	**96,592,019**	**107,470,310**	**110,555,836**	**116,251,192**
FTE	90.50	92.21	97.17	87.00

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 97% 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 four 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 (now renamed the Education Stability 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. Other Funds payments for administrative expenses (personnel costs, services and supplies) are limited in the budget. Other Fund payments for student aid (e.g., Private

Award payments, JOBS Plus payments) and for financial transactions in the loan guarantee program are Nonlimited. 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, and lowered the major reimbursement rates that fund guarantor agencies like OSAC. As this occurs, budgets for FFELP administration are being reduced, and 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.

Legislatively Adopted Budget

The Legislature made very large modifications to the Governor's budget recommendations for the agency budget. The Governor's budget had reduced General and Lottery Funds by 15% from the level approved in the 2001 regular sessions. Fundamentally, the Governor's budget had rolled forward and biennialized the funding reductions in the agency's budget made during the 2002 special sessions and under the allotment reductions of the previous interim. The legislatively adopted budget, on the other hand, actually increases state support by 2.2% over the 2001 session level.

The legislatively adopted budget increases funding for the Opportunity Grant above prior biennium levels. OSAC was alone among the state's post-secondary education programs to receive such an increase in state support over the prior biennium level. This reflects the budget's attempt to provide support to at least partially mitigate the impacts of tuition rate increases on lower-income post-secondary students.

The fundamental components of the legislatively adopted budget are outlined below, with details provided in the specific program area discussions that follow:

- The Legislature added $8.4 million in state support (i.e., General Fund plus Lottery Funds) above the level in the Governor's budget for the Opportunity Grant program. This funding level represents a 3.8% increase over the 2001 regular session level. The Governor's budget had reduced Opportunity Grant support.

- The Legislature reduced Lottery Fund support for the Opportunity Grant by $3.1 million from the level in the Governor's budget to reflect the reduction in Lottery Funds dedicated to the Opportunity Grant by law (25% of the earnings of the Education Stability Fund). The projected earnings dedicated to the Opportunity Grant declined by $3.1 million (or 83%) as a result of two factors: 1) voters and the Legislature transferred money out of the Education Stability Fund (ESF) to support the State School Fund's 2001-03 and 2003-05 biennium distributions. These transfers reduced the size of the ESF and therefore the earnings available for distribution to OSAC for the Opportunity Grant. The budget transfers the entire projected balance of the ESF to the State School Fund in May 2005, with the exception of ESF moneys invested in long-term, illiquid assets. Compounding this effect, 2) historically low interest rates further reduced projected earnings of the ESF.

- Because of the Lottery Fund reduction noted above, the budget actually increased General Fund support for the Opportunity Grant by 36%, or $11.5 million, over the amount in the Governor's budget. This $11.5 million increase was then partially offset by the $3.1 million decline in Lottery Funds to yield the $8.4 million net increase in state support.

- Of the three other General Fund-supported student aid programs, the budget suspends the Former Foster Youth Scholarship, but maintains current levels of financial aid for the Nursing Services Program and the Rural Health Services Program. Although awards in the Nursing Services Program were not reduced, General Fund support was reduced $200,000 as program financing was adjusted to match General Fund support to projected award levels.

- General Fund support for administrative expenses was reduced by approximately 26% from 2001 regular session levels (and by 34% from the level in the Governor's budget) through a combination of standard reductions applied to all state agencies, and of additional reductions applied specifically to OSAC. Proportionally, the largest reductions were made in support of the Office of Degree Authorization and Policy Research Division.

- Other Fund support for administration of the FFELP, ASPIRE, and Private Award programs was also reduced through a combination of standard and specific reductions. Other Funds in the Office of Degree Authorization budget were increased, and the Office was granted broadened authority to levy fees to offset some of its General Fund cuts. The net impact of all of these changes amounted to a 10.3% reduction in Other Funds from the level in the Governor's budget.

- A need to review the future of the agency's participation in the FFELP program was noted, as revenue in the program is not sufficient to support the expenditures authorized in the budget, and the program faces a revenue shortfall over the long term.

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 following table:

State Support (General Fund + Lottery Funds)			
	2001-03 Regular Session	2003-05 LAB	Change
Opportunity Grant	$42,419,497	$44,031,287	3.8%
Rural Health Services Program	434,208	434,208	0.0%
Nursing Services Program	379,933	156,372	-58.8%
Former Foster Youth Scholarship	100,000	0	-100.0%
Agency Operations	1,182,005	871,707	-26.3%
Total State Support	$44,515,643	$45,493,574	2.2%

OSAC – Administration Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	242,014	244,098	227,674	163,939
Other Funds	1,617,568	1,553,529	1,827,278	1,754,826
Total	**1,859,582**	**1,797,627**	**2,054,952**	**1,918,765**
FTE	10.00	9.00	11.00	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.

Legislatively Adopted Budget

The Governor's budget approved 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 Governor's budget included adjustments for compensation cost changes, 2003-05 merit increases, and inflation. The budget did not include any rollup of special session reductions. Instead, Administration Division special session reductions were restored in the budget as they were considered of a one-time nature.

The Legislature approved the agency reorganization and associated increases, but then reduced the Administrative Division budget through a combination of standard reductions applied to all state agencies, and an additional reduction applied specifically to OSAC. The standard reductions eliminated the increases the Governor had budgeted for merit increases and inflation. Reductions were also made to reflect reduced PERS contribution rates and reduced state government service charges. Combined, these reductions totaled $7,844 General Fund and $72,452 Other Funds. Finally, the budget included an unspecified $100,000 General Fund reduction to agency administration that was in addition to standard reductions and that was implemented to help balance the state General Fund budget. The agency apportioned $55,891 General Fund of this reduction to the Administration Division.

OSAC – Grants and Scholarships Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	32,802,062	35,229,748	33,213,804	44,341,268
Lottery Funds	5,066,421	2,965,741	3,726,802	647,977
Other Funds	1,759,370	2,638,192	3,430,963	3,011,438
Federal Funds	867,253	1,762,084	1,425,468	1,239,605
Nonlimited	17,878,209	17,251,629	20,914,770	20,914,770
Total	**58,373,315**	**59,847,394**	**62,711,807**	**70,155,058**
FTE	13.54	11.00	19.00	18.00

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 (now named the Education Stability 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, the Governor's budget still projected Lottery Funds of $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.

Legislatively Adopted Budget

The legislatively adopted budget includes $45.5 million for the Opportunity Grant Program ($43.4 million General Fund, $0.6 million Lottery Funds, $1.2 million in Federal Funds and $0.3 million Other Funds). State support is up 3.8% over the 2001-03 regular session level, but total support is up only 3.3% because of a decline in Federal Funds. Federal Funds fell primarily because the state was unable to meet federal maintenance of effort requirements, after support was reduced in the 2002 special session reductions. Nonetheless, 2003-05 biennium state support is high enough to maximize potential 2003-05 biennium federal matching funds. The Opportunity Grant funding level is also a 22% increase over the Governor's budget level, and a 21% increase over the funding that was actually distributed in the 2001-03 biennium after special session reductions.

As part of standard budget adjustments applied to all state agencies, the Legislature eliminated the increase that was in the Governor's budget for inflation for Opportunity Grants. This resulted in a $1.3 million General Fund reduction. This reduction was offset, though, by an addition of $12.8 million in General Fund Opportunity Grant support. The net impact was thus an $11.5 million increase in General Fund for Opportunity Grants over the amount in the Governor's budget. Lottery Funds were reduced $3.1 million to reflect reduced projections of dedicated interest earnings from the Education Stability Fund. The earnings declined from the Governor's level because of transfers of funds out of the Education Stability Fund to balance the 2001-03 and 2003-05 biennium state budgets, and because of falling interest rates. With this decrease, total state support for Opportunity Grants was increased by $8.4 million over the Governor's budget level. This increase will finance an estimated additional 7,800 Opportunity Grant awards during the biennium, bringing the projected total to 41,000, or approximately 2,700 more than financed in the 2001-03 biennium.

General Fund support for Opportunity Grants will not be directly reduced if the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral. This is notable because it represents an exception to the general policy of reducing supplemental funding increases in the event of the tax being rescinded. Although a portion of the Opportunity Grant funds qualify as the type of supplemental funding increase that was typically so reduced, the Legislature made an exception in this case. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, however, additional allotment reductions across all appropriation categories may be implemented by the Governor, and such an allotment reduction would reduce General Fund for Opportunity Grants.

The Legislature reduced General Fund for the Rural Health Services Program by $15,197, and for the Nursing Services Program by $13,298, as part of standard reduction applied to all state agencies to eliminate inflation funding in the Governor's budget. An additional $200,000 General Fund reduction was made to funding for the Nursing Services Program. This was done without reducing award levels, however. Nursing Services Program awards are paid over a five-year period, and the Governor's budget contained sufficient General Fund to support all awards made in the 2003-05 biennium for their full five-year life. In order to address the state General Fund shortfall, the Legislature removed the $200,000, which represented the amount that will be paid for 2003-05 awards after the biennium is over. The funds remaining will cover all 2003-05 payments. An appropriation will be required in 2005-07, therefore, to pay the remaining years of the 2003-05 awards, even if the program is cancelled and no further awards are made. Finally, the budget suspends the Former Foster Youth Scholarship Program, which reduces General Fund by $99,360.

The Grants and Scholarships Division budget also supports the administrative costs of the Opportunity Grant, Private Awards, and other grant programs. The Governor's budget supported a package to fund 5 positions (5.0 FTE) with Other Funds for the ASPIRE program, to train and support volunteer advisors who provide counseling to high school students 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. The Legislature approved the positions, but reduced ASPIRE funding by $200,000 Other Funds to reflect lower projections of grant funds to be received.

The budget was further reduced through a combination of standard reductions applied to all state agencies, and an additional reduction applied specifically to OSAC. The standard reductions eliminated the increases the Governor had budgeted for merit increases and inflation. Reductions were also made to reflect reduced PERS contribution rates and reduced state government service charges. Authority to fill a vacant position (1.0 FTE) was removed, along with the funds associated with the vacant position, and a second vacant position was continued but funding was reduced from the level budgeted in the Governor's budget. Combined, these reductions totaled $13,671 General Fund, $219,525 Other Funds, and one position (1.0 FTE). Finally, the budget included an unspecified $100,000 General Fund reduction to agency administration that was in addition to standard reductions and that was implemented to help balance the state General Fund budget. The agency apportioned $23,263 General Fund of this reduction to the Grants and Scholarships Division.

OSAC – Loan Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	9,010,605	11,098,977	10,046,832	8,840,619
Nonlimited	25,823,780	33,259,980	33,259,980	33,259,980
Total	**34,834,385**	**44,358,957**	**43,306,812**	**42,100,599**
FTE	57.96	63.96	52.17	45.00

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.

Legislatively Adopted Budget

The Governor's budget reduced employment and funding in the Loan Division. Almost 10 FTE were eliminated to reflect a reorganization during the 2001-03 biennium that transferred positions. Further reductions were included which involved moving three positions to the Office of Degree Authorization/Policy Research and one position to the Administration Division. The budget added $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.

The Legislature approved the agency reorganization that transferred the various existing positions, but rejected the request for the two new positions and their associated Other Funds expenditure limitation. The budget was further reduced through a combination of standard reductions applied to all state agencies. The standard reductions eliminated the increases the Governor had budgeted for merit increases and inflation. Reductions were also made to reflect reduced PERS contribution rates and reduced state government service charges. Authority to fill six vacant positions (5.17 FTE) was removed, along with the funds associated with the vacant positions. Combined, these reductions totaled $1,206,213 Other Funds, and eight positions (7.17 FTE). Remaining Other Fund represents a 12% reduction from the level in the Governor's budget and the 2001 regular session level.

The Loan Division budget (as well as the other divisions that are funded by FFELP revenue: Administration and Information Services) will require further reductions, however. Revenues received through the agency's participation in FFELP are not sufficient to maintain even the reduced level of expenditures approved in the budget. The major sources of revenue that OSAC receives in the FFELP program include retention of a portion of the funds that the agency is able to collect on defaulted loans, money received from fees for processing and issuing loans, portfolio maintenance fees, and revenue from consolidating loans that are in default. Under the 1998 Reauthorization of the Higher Education Act, the federal government has phased-in reductions in the fees it pays guarantee agencies. Prior to reauthorization, OSAC received a Loan Processing and Issuance Fee from the federal government equal to 1% of the new loan principal amounts that it guaranteed each year. That fee has now been reduced to 0.40% of principal amount. The agency also received an Account Maintenance Fee equal to 0.12% of its outstanding balance of non-defaulted loans. This fee has been reduced to 0.10%. The amount that the federal government reimburses of payments that the agency makes to lenders when it purchases defaulted loans has fallen from 100% to 95% of such payments, and the amount that the agency is allowed to retain of what it collects on defaulted loans has been reduced from 30% to 23%.

The agency must address this situation through some combination of the following actions:

- Increase revenue generated under the FFELP program. Much of the agency's revenue is based directly on the dollar amount of the loans it guarantees, or on the dollar amount of what it can collect on loans that have gone into default. Loan volumes will rise as college enrollments and costs of attendance increase. So may collection amounts on defaulted loans. The amount of increases necessary to maintain the minimum required fund reserve levels are large though. The agency would need to increase the value of new loans being guaranteed by about 58% to maintain reserve requirements, if no other changes were made. Alternatively, collections on defaulted loans would have to increase by about 14%, or the amount of loan consolidation activity would have to increase 26%. This last alternative may be the most feasible, but this would not be a long-term solution as that the backlog of unconsolidated loans will decline over time, leaving reduced opportunity for future consolidation income.

- Decrease expenses of the FFELP program. Expenditure reductions could allow the agency to maintain fund balances, but the ability to reduce expenses while still maintaining all of the agency's current services to lenders, borrowers, and schools is limited. OSAC operates FFELP in a competitive environment, and it must maintain competitive service levels or schools will use other guarantors or move to the competing Direct Loan Program.

- Change how it participates in the FFELP program. Potential changes include various alternatives of contracting different functions to private contractors, and/or obtaining a Voluntary Flexible Agreement (VFA) from the federal government to change the agency's focus and compensation under the program. One alternative the agency is exploring is to seek a VFA that would shift more of its activity, and more of its revenue, toward default prevention activities. This would be a change from the current structure with its emphasis on collection on loans that have gone into default.

Information on this situation arrived too late to be incorporated in the budget. Instead, the budget includes a budget note that requires the agency to report to the Emergency Board twice on the situation and on options for rebalancing its FFELP budget. OSAC and the Department of Administrative Services are reviewing these options during the interim.

OSAC – Information Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	238,121	185,474	256,699	144,971
Other Funds	937,211	894,815	1,193,894	959,768
Total	**1,175,332**	**1,080,289**	**1,450,593**	**1,104,739**
FTE	7.00	6.00	8.00	6.00

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.

Legislatively Adopted Budget

The Governor's budget added 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 supported an proposal to shift one position to the Administration Division, and a recent agency reorganization that transferred two positions to the Information Services Division.

The Legislature approved the agency reorganization that shifted the various existing positions, but rejected the request for a new position with its associated Other Funds expenditure limitation. The budget was further reduced through a combination of standard reductions applied to all state agencies, and an additional reduction applied specifically to OSAC. The standard reductions eliminated the increases the Governor had budgeted for merit increases and inflation. Reductions were also made to reflect reduced PERS contribution rates and reduced state government service charges. Authority to fill a vacant position (1.0 FTE) was removed, along with the funds associated with the vacant position. Combined, these reductions totaled $100,990 General Fund, $234,126 Other Funds, and two positions (2.0 FTE). Finally, the budget included an unspecified $100,000 General Fund reduction to agency administration that was in addition to standard reductions and that was implemented to help balance the state General Fund budget. The agency apportioned $10,738 General Fund of this reduction to the Information Services Division. Remaining General Fund represents roughly a 40% reduction from the prior biennium level. Combined General/Other Fund support for Information Services is essentially flat at the level approved in the 2001 regular session, but is 44% below the level in the Governor's budget.

OSAC – Office of Degree Authorization/Policy Research

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	184,317	232,333	427,642	195,419
Other Funds	165,088	153,710	604,030	776,612
Total	**349,405**	**386,043**	**1,031,672**	**972,031**
FTE	2.00	2.25	7.00	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.

Legislatively Adopted Budget

The Governor's budget increased 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.

The Legislature approved the agency reorganization that shifted positions into the program. The budget was then reduced, however, through a combination of standard reductions applied to all state agencies, and through additional reductions applied specifically to OSAC. The standard reductions eliminated the increases the Governor had budgeted for merit increases and inflation. Reductions were also made to reflect reduced PERS contribution rates and reduced state government service charges. Combined, these reductions totaled $22,115 General Fund and $27,418 Other Funds. Also, the budget included an unspecified $100,000 General Fund reduction to agency administration that was in addition to standard reductions and that was implemented to help balance the state General Fund budget. The agency apportioned $10,108 General Fund of this reduction to the program area.

Finally, General Fund for the Office of Degree Authorization was reduced an additional $200,000, with these expenditures shifted to Other Funds. The Office's authority to impose fees for services was broadened to allow fees to replace General Fund that had supported its degree validation and general information services. The agency estimates that fee revenue will be insufficient to replace the General Fund reduction, and if this happens, program area services may need to be cut. The agency can, however, designate other Other Funds to support the program area's functions as long as those functions are connected to the activities generating the Other Fund revenue. These various actions reduce General Fund support by 54% from the Governor's budget level. Combined General/Other Fund support for the program area is reduced 6% from the Governor's budget level.

Teacher Standards and Practices Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	3,353,660	3,404,934	3,861,514	3,574,664
FTE	18.00	17.75	21.00	20.00

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 69,000 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 these fees, 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 last biennium were sufficient enough to delay the increase until January 2003, when fees for in-state applicants and renewals increased from $60 to $75. The 2003 Legislature ratified the increase (in HB 5055), the first since 1994. Because the life of a license ranges from three to five years, the annual increases range from $3 to $5.

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 legislatively adopted budget provides for an ending balance equal to about four months of operating expenditures.

Budget Environment

A surge in retirements of "baby-boomer" teachers was expected to start in 2001-03 and, in fact, previous data indicated retirements were estimated to be about 18% higher in 2002-03 compared to 2001-02. Changes to the Public Employees Retirement System likely resulted in an even greater actual 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 has grown from 154 cases in 1997-99 to 198 cases in 1999-01 and 254 in 2001-03.

Over the last several years, the agency has used technology to address several workload issues. In the 2001-03 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.

Legislatively Adopted Budget

The legislatively adopted budget is a 5% increase over the 2001-03 legislatively approved budget and a 7.4% decrease from the Governor's budget. 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 $40,000 Other Funds expenditure limitation due to savings from the use of scanning for document storage;
- the addition of $157,789 Other Funds expenditure limitation for 2 limited duration positions (1.5 FTE) and an increase of 0.5 FTE to an existing permanent position to improve telephone and e-mail response time in the customer service area and to address clerical workload demands;
- the addition of $80,823 Other Funds expenditure limitation for document scanning and for reclassification of an existing technology position to improve on-line services to customers as well as the internal licensing process; and
- the addition of $55,388 Other Funds expenditure limitation for a new Investigator position (0.5 FTE) and reclassification of the existing Investigator position to address increased workload related to disciplinary cases. The agency expects to hire the new position as full-time for one year and evaluate the need for the position at the end of that period.

Based on revised workload information from the agency, the Legislature did not approve a new Information Specialist position that was included in the Governor's budget. Other reductions from the Governor's budget include adjustments for a lower PERS employer contribution rate, the salary freeze for state employees, reduced salaries for vacant positions, elimination of the inflation allowance, and reduced interagency service charges.

HUMAN SERVICES

Commission for the Blind – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,302,438	1,219,568	1,191,047	1,170,546
Other Funds	2,185,200	2,955,159	2,335,880	2,319,230
Federal Funds	8,439,052	8,691,575	8,413,548	8,275,097
Total	**11,926,690**	**12,866,302**	**11,940,475**	**11,764,873**
FTE	49.73	52.73	41.33	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 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 maintains a Bequest and Donation Fund with a beginning balance in excess of $800,000. In prior biennia, the Commission has only used the interest earnings to support client services and for special grants. The 72nd Legislative Assembly directed the Commission to explore the possibility of using donation funding to match Federal Funds and to offset the loss of General Fund support.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $11.8 million total funds and 41.33 FTE, which includes a General Fund reduction of approximately 10% and 8.0 FTE to help balance the statewide budget. The Commission will explore the possibility of using donation funding to match Federal Funds and to offset the loss of General Fund support.

Technical adjustments were also made for the elimination of merit increases, inflation for certain services and supplies line items, a reduction to the Department of Administrative Services assessment, a reduction to the Attorney General rate, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	51,615,786	52,320,359	55,586,542	48,654,437
Other Funds	17,547,550	23,797,784	24,556,622	23,591,506
Federal Funds	2,066,309	321,452	178,809	172,404
Total	**71,229,645**	**76,439,595**	**80,321,973**	**72,418,347**
Positions (FTE)	30.67	32.12	34.50	23.50

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.

With the passage of HB 2191 during the 2003 session, the State Commission has 17 members: 12 appointed by the Governor; the Director of the Department of Human Services; the Superintendent of Public Instruction; the Director of the Employment Department, or, alternatively, the chair of the Commission for Child Care; and nonvoting, advisory members from the Senate and the House of Representatives.

Revenue Sources and Relationships

General Fund supports most of the Commission's budget, although the General Fund share has dropped from 72% of the total 1999-2001 budget to 67% of the total 2003-05 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 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 almost 20% 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 was spent in 2001-03; the balance is carried 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. About $3 million in matching funds is expected for 2003-05, creating a total of $6 million Other Funds expenditures in the program.

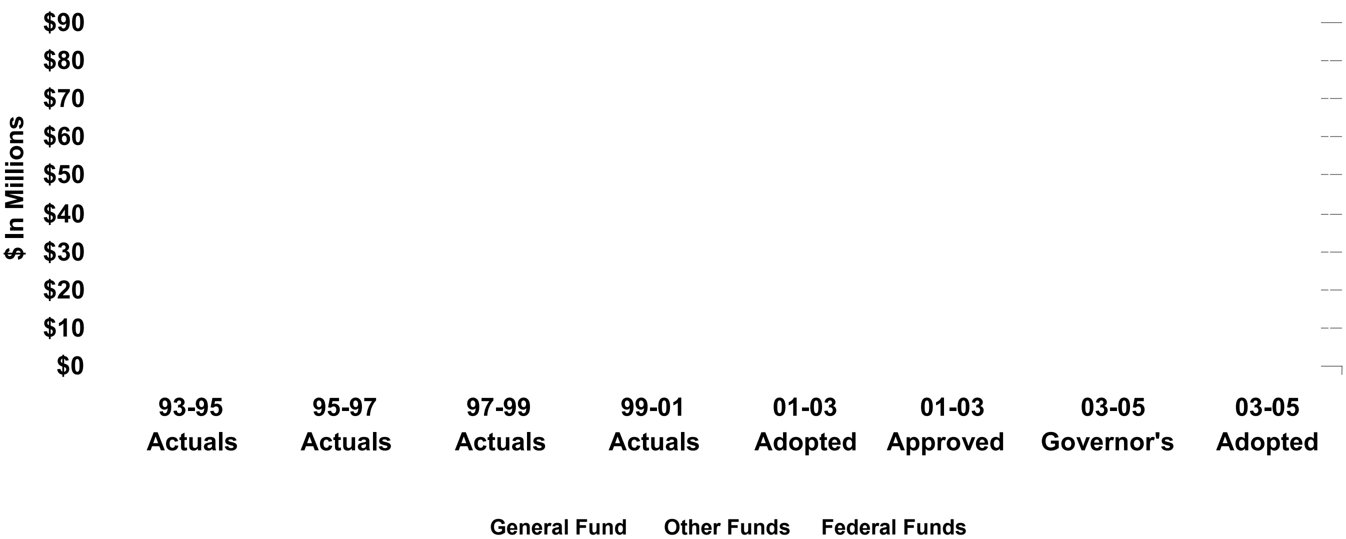
The Commission gets a small amount of Other and Federal Funds from designated grants. For 2003-05, it will receive grants for the Court Appointed Special Advocates program and Positive Youth Development activities.

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. To date, each county has "mapped" local needs, barriers, strengths and services for children and families; identified local priorities with broad community involvement; and developed evaluation and

outcome reporting systems to put in place measurable strategies and targets. The approved plans, effective July 2003, will 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 Commission's General Fund budget has increased more than 50%, from $32 million to $48.7 million, since 1993-95. The total funds budget has almost doubled over that same time period, from $38 million to $72.4 million. However, the 2003-05 legislatively adopted budget reflects a change to the historical growth pattern: the General Fund budget is 5.7% less than the Commission's 1999-2001 expenditures, and the total funds budget is only 1.7% higher than in 1999-2001. One particular budget element, the Healthy Start program, has doubled in size from 1999-2001, from less than $17 million then to $33 million total funds in 2003-05. The program represented less than one-fourth of the budget in 1999-2001 but is almost half of the budget in 2003-05, funded in part by shifting resources from other programs.



The Commission's 2001-03 legislatively adopted budget was reduced by $7 million General Fund in special session actions during the interim, and by an additional $2.2 million during the 2003 session. Program reductions included savings from delays in the Healthy Start home visitation program expansion; reductions in county flexible program funds and local staffing grants, crisis/relief nurseries and Court Appointed Special Advocates (CASA) funding; eliminating funding for community one-call centers and referral lines, and reducing physician training and program evaluation for the Oregon Children's Plan; eliminating funding for the First Steps violence prevention, family resource centers and Together for Children programs; one-time savings from unobligated county funds; and state staffing reductions. The Legislature carried forward most of these reductions for the 2003-05 budget.

Legislatively Adopted Budget

The $72.4 million total funds budget for the Commission is 5.3% total funds below the 2001-03 legislatively approved budget at the close of the 2003 session, but 13.1% total funds below the budget originally approved by the 2001 Legislature. This reflects significant reductions in county flexible program funds and local staffing grants, as well as slower expansion of the Healthy Start home visitation program. Funding for the crisis/relief nurseries and CASA program was restored to the original 2001-03 levels. The Healthy Start program is funded to serve 50% of first-birth families in each county, compared to 65% of first-birth families proposed in the Governor's budget and 80% of first-birth families originally planned by the 2001 Legislature. The 2003 Legislature also eliminated one-third of the state Commission's technical assistance and administrative staff positions. The reductions in both program funds and support services will reduce counties' abilities to carry out their local comprehensive plans, and the state Commission's ability to assist counties and other state agencies in these efforts.

If the temporary graduated income tax assessments adopted by the Legislature in HB 2152 are rescinded through a referral to Oregon voters, HB 5077 provides that $4.8 million General Fund will be disappropriated from the Commission's budget. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. The Commission has not identified specific reductions that would be made; however, about 95% of its General Fund budget is in its Community Development and Program funding and only about 5% in Policy and Support Services.

SCCF – Community Development and Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	49,332,750	49,502,868	52,355,187	45,981,599
Other Funds	17,544,906	23,784,820	24,474,976	23,454,194
Federal Funds	2,066,309	319,503	176,854	170,449
Total	**68,943,965**	**73,607,191**	**77,007,017**	**69,606,242**
Positions (FTE)	16.17	18.12	19.50	11.00

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 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 now have programs in place. The final 2001-03 funding level limited the program to serving an estimated 65% of first-birth families. The Governor's proposed 2003-05 budget continued that 65% service level. To fund all counties at 80% of first births in 2003-05 would have required $11.4 million General Fund and $4.4 million Other Funds more than the Governor proposed.

The 2001 Legislature adopted the Oregon Children's Plan, and added $2.2 million General Fund to the 2001-03 budget for increased early childhood program evaluations and local early identification supports such as information referral and physician training. However, this funding has been eliminated as part of the budget reductions during the 2001-03 interim and the 2003 legislative session. These reductions, together with state staffing reductions that will limit technical assistance, training, and evaluation, will make it more difficult for communities to carry out the Children's Plan legislation.

The Commission's budget had included 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. During the 2002 special sessions, funding for the family resource centers and Together for Children program was eliminated, and crisis/relief nursery funding was reduced by about half for the last 5 months of the 2001-03 biennium. Funding for the First Steps violence prevention training program was also eliminated as part of the 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 Basic Capacity 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 the flexible program grants for that purpose. The Commission proposed a single grant stream from current resources to fund a minimum of 2.0 FTE local staff, overhead and planning costs. The program grants and the Local Capacity grant were all reduced during the 2001-03 interim due to budget constraints.

In the 1999-2001 interim, the Court Appointed Special Advocates (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.

Legislatively Adopted Budget

The 2003 Legislature accepted most of the Governor's proposed budget reductions, with the exception of reductions in crisis/relief nurseries and CASA programs, and made further program reductions in other areas. As a result, the legislatively adopted budget is 7.1% General Fund and 5.4% total funds less than the 2001-03 legislatively approved budget at the close of the 2003 session.

The Governor's budget proposed $30.6 million General Fund and $6.4 million Other Funds from Medicaid matching funds for the statewide voluntary Healthy Start program. This level would serve 65% of first-birth families. The Legislature reduced this proposal by $3.6 million General Fund and $0.4 million in Medicaid matching funds. The legislatively adopted program budget will allow county programs to serve about 50% of first-birth families. The Commission has identified this 50% service level as about the minimum needed to maintain a viable statewide Healthy Start program.

The budget eliminates eight staff positions and reduces one other position as part of agency-wide reductions to technical assistance and central office staff, for a $1 million net total funds savings. The Commission expects to contract out training and quality assurance for the Healthy Start program, but will scale back support for local comprehensive planning and technical assistance to local commissions. The Legislature also cut $0.7 million General Fund for Children's Plan publications and system and program evaluations.

In the Governor's budget, funding for local commissions' staff and planning work was consolidated into one $12 million total funds Basic Capacity grant ($11.2 million General Fund, $0.8 million Other Funds). The Legislature concurred with the consolidation, but reduced the grant by $1.4 million General Fund.

The Great Start and Children, Youth and Families grants were maintained at the $2.7 million and $2.6 million General Fund levels, respectively, in the Governor's budget. The Governor had reduced these grants by $5.3 million General Fund to support the Healthy Start program. The Legislature further reduced the $7.9 million Other Funds Youth Investment grant by $1 million, shifting the $1 million to crisis/relief nurseries to free up $1 million General Fund in the budget overall.

The Legislature restored $0.8 million General Fund to crisis/relief nurseries, and $0.1 million General Fund to the CASA program, to bring these programs to the funding levels originally approved for the 2001-03 biennium.

HB 2522, which transfers statutory responsibility for the Children's Ombudsman from the Commission to the Department of Human Services (DHS), was approved by the Legislature. The adopted budget thus eliminates $0.4 million Other Funds previously paid to DHS by interagency agreement for the Ombudsman's operations.

SCCF – Policy and Support Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,283,036	2,817,491	3,231,355	2,672,838
Other Funds	2,644	12,964	81,646	137,312
Federal Funds	0	1,949	1,955	1,955
Total	**2,285,680**	**2,832,404**	**3,314,956**	**2,812,105**
Positions (FTE)	14.50	14.00	15.00	12.50

Program Description

The Policy and Support Services program supports the 17-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 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 and during the 2003 session reduced the Commission's staffing as well as resources for travel, training, Commission meetings, and program evaluation.

Legislatively Adopted Budget

The legislatively adopted budget for Policy and Support Services makes up 3.9% of the Commission's total funds budget. The Policy and Support Services budget is 5.1% General Fund and 0.7% total funds less than the 2001-03 legislatively approved budget at the close of the 2003 session.

The Governor's budget abolished one vacant position for which funding was eliminated in the 2002 third special session. The Legislature abolished three more positions and reduced another position from full-time to half-time to generate a net $0.4 million General Fund savings. These positions include human resource, audit, and information services staff. The Commission will contract out its human resource and database maintenance functions.

The Legislature approved a new, full-time, limited duration Resource Developer position. The position is expected to generate enough revenue to cover its Other Funds cost and provide added program resources. The Commission is to monitor and report to the 2005 Legislature on the position's effectiveness.

Oregon Disabilities Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	288,121	281,885	298,929	0
Other Funds	559,031	565,902	733,109	694,087
Federal Funds	887,395	817,297	243,782	477,947
Total	**1,734,547**	**1,665,084**	**1,275,820**	**1,172,034**
FTE	5.20	5.20	5.50	4.00

Program Description

The Oregon Disabilities Commission (ODC) provides advocacy activities on behalf of and referral services to individuals with disabilities; advises the Department of Human Services (DHS), the Governor, and the Legislative Assembly; and administers three programs: the Client Assistance Program (CAP), the Technology Access for Life Needs (TALN) program, and the Deaf and Hard of Hearing Access Program (DHHAP). ODC also acts as the state's coordinating agency for compliance with the federal Americans with Disabilities Act.

The CAP provides advocacy for clients of DHS's Vocational Rehabilitation Services, the Commission for the Blind, and Independent Living Centers who are not satisfied with their services. ODC contracts with private, non-profit agencies to provide dispute resolution services for clients and the rehabilitation 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 individuals with disabilities, their employers, and representatives of agencies and programs that serve them. The program provides outreach through community colleges around the state.

The DHHAP provides training and educational services, technical assistance, information and referral services, and coordination of sign language interpreter services for state agencies, employees, and other constituents who are deaf, hard of hearing, and/or late deafened.

Revenue Sources and Relationships

Federal funding from the U.S. Department of Education supports 100% of the CAP, through the Rehabilitation Services Administration (RSA), and TALN programs, through the National Institute on Disability and Rehabilitation Research. Oregon is designated as a "minimum allotment state" based on its population and expects to receive $248,162 to support the CAP during the 2003-05 biennium. After the initial five-year grant period for TALN ended in 2000, funding has been limited to one-year extensions. Oregon expects to receive $230,785 through March 2004.

ODC anticipates receiving $708,708 in Other Funds, primarily from interagency agreements to provide hearing impaired translator services, sign language interpreter coordination, dispatching, training, and technical assistance.

Budget Environment

While most of the federal funds received for the CAP and TALN programs support contract services, a small portion of the funding supports ODC's administrative costs. Since the CAP funding has not increased sufficiently to cover inflation, coupled with the uncertainty of the one-year extensions of TALN and limited General Fund resources, ODC has a limited administrative resources to provide advocacy and outreach services.

Legislatively Adopted Budget

The legislatively adopted budget of $1,172,034, a 33% decrease from the 2001-03 legislatively approved budget, reflects the elimination of General Fund support and a reduced level of federal funding for TALN. In order to achieve this level of reduction, two administrative positions were reduced to half-time and a part-time, trainer position was eliminated.

Department of Human Services (DHS) – Agency Totals

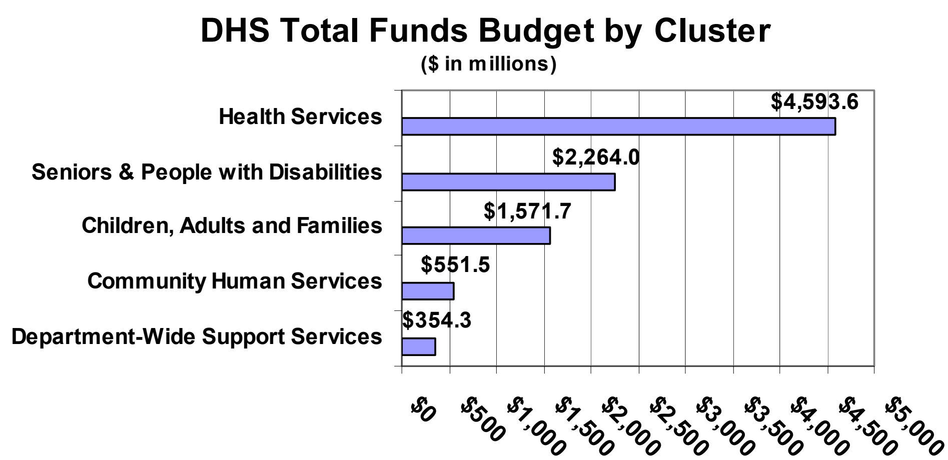
	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,227,489,426	2,389,819,931	2,213,079,964	2,408,872,759
Lottery Funds	5,045,990	5,896,855	6,878,546	5,600,000
Other Funds	792,308,247	1,233,468,444	1,162,649,385	1,084,634,476
Federal Funds	3,939,792,691	4,777,505,486	4,366,629,684	4,928,879,080
Nonlimited	480,660,754	784,497,779	831,901,901	907,139,969
Total	**7,445,297,108**	**9,191,188,495**	**8,581,139,480**	**9,335,126,284**
FTE	8,686.84	8,794.20	9,337.79	9,148.25

The Department of Human Services (DHS) is the largest agency within the Human Services program area, making up almost 99% of program area expenditures. Overall, DHS comprises about 21% of the state's combined General Fund and Lottery Funds budget, but 25% of the state's total funds budget.

The 2001 Legislature passed HB 2294, which eliminated separate divisions and program offices and realigned program responsibilities within DHS. 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 DHS 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.
- ***Community Human Services*** includes field staffing for the range of DHS services, organized into 16 Service Delivery Areas throughout the state. The Office of Vocational Rehabilitation Services is also supported here.
- ***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.
- ***Department-wide Support Services*** includes the agency's centralized administrative and support functions.



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 legislatively adopted budget for 2003-05. Over 85% of the General Fund is used to match or meet state 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 support about 12% of DHS expenditures. These 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 62% of DHS expenditures. Federal Funds subject to expenditure limitation are about half of the DHS budget. Almost two-thirds of the Federal Funds 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. Some of these sources are capped block grants (e.g., TANF, Social Services Block Grant); others provide federal matching funds as partial reimbursement of state costs (e.g., Medicaid, Foster Care and Adoption Assistance). Nonlimited Federal Funds are for the Food Stamps and Women, Infants and Children (WIC) nutrition programs.

Budget Environment

Population changes, especially the number of people who are elderly, disabled, or living in poverty, affect the need or demand for DHS services. 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, growth in TANF caseloads, Food Stamps caseloads, Oregon Health Plan caseloads, and long-term care for elderly and disabled Oregonians put significant pressure on the DHS budget. A large part of the budget is devoted to health services, so higher medical inflation and utilization of services also drive DHS costs. Additionally, federal budget and program changes can have significant impact on the DHS budget. For example, pending federal reauthorization of the TANF program may require significant changes to Oregon's program, depending on the final 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 areas, litigation by clients and advocate groups has forced 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 savings expected from the agency reorganization. DHS was to identify $6 million more in General Fund savings to reinvest in reorganization costs such as information systems improvements, financial systems restructuring, and staff training. DHS was able to identify $5.7 million in savings. It spent $2.4 million on reinvestment costs (mostly information systems work). The balance of the savings was eliminated in budget reduction actions.

DHS' 2001-03 legislatively adopted budget was reduced by a net $224 million General Fund in 2002 special session actions, after distribution of partial funding of employee salary and benefit increases. Other actions were taken in rebalance plans to offset increased costs in other programs, or to meet budget reductions directed as a result of the December 2002 forecast revenue shortfall. HB 5100's reductions included actions to:

- Use $85 million in Master Tobacco Settlement Funds and $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 Oregon Project Independence, General Assistance, and Medically Needy program funding, and eligibility for long-term care services for some clients.
- Reduce nursing facility, assisted living facility, residential care facility, and adult foster home rates.
- Eliminate service enhancements for persons 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, information systems contracts and purchases.

The 2003 Legislature further adjusted DHS's 2001-03 budget in several pieces of legislation:

- SB 5548 appropriated a total of $31.6 million General Fund to partially restore provider and program reductions taken as part of previous budget actions. The bill included funding for community mental health services for children, long-term care provider rates, services for elderly and disabled persons in survival priority levels 10 and 11, services for persons with developmental disabilities under the Staley settlement agreement, prescription drugs for the Oregon Health Plan Standard population and certain persons previously participating in the Medically Needy program. Tobacco settlement funds and tobacco tax revenues were also used to replace General Fund in the Oregon Health Plan.
- SB 5549 implemented the Department's budget rebalancing plan. The most notable changes reflected continued growth in federal Food Stamps expenditures, changes in long-term care services for elderly and disabled persons, and adjustments in the Oregon Health Plan budget.
- HB 5064 appropriated $45.6 million to seniors' programs to cover a shortfall in Medicaid Upper Payment Limit (MUPL) revenue. The federal Center for Medicare and Medicaid Services deferred federal funds expected to be received in the last quarter of the biennium for MUPL claims, and General Fund was needed to pay for program services until the federal funding issue could be resolved.
- SB 859 ratified the Governor's December 2002 across-the-board allotment reductions, a total of $28.4 million General Fund for DHS. SB 5549 anticipated DHS would use this General Fund to cover cash flow needs late in the biennium, with the understanding that pending tobacco tax receipts would replace the $28.4 million General Fund at biennium-end. The $28.4 million would then revert to the General Fund. The 2001-03 legislatively approved budget totals used in this analysis reflect the expected General Fund reversion.

Legislatively Adopted Budget

The Legislature approved a budget of $2.409 billion General Fund and $9.335 billion total funds. This includes $14.3 million General Fund in special purpose appropriations to the Emergency Board for the Oregon Health Plan and services for persons with developmental disabilities. The General Fund/Lottery Funds budget is $18.8 million, or 0.8%, more than DHS's 2001-03 legislatively approved budget at the close of the 2003 session. The total funds budget is up $143.9 million, or 1.6%, from the 2001-03 approved level. This compares to 7.3% General Fund and 23.4% total funds growth from 1999-2001 to the 2001-03 legislatively approved level.

The adopted budget adds field staff for caseload growth in Food Stamps, child welfare, and seniors' programs. TANF cash grants are restored to 1991 payment levels. Payments to foster care providers and families receiving Adoption Assistance for special needs children are largely restored. Funding is partially restored for Employment Related Day Care, post-secondary student day care, and child welfare System of Care services. Grants to Independent Living Centers are funded at $0.5 million General Fund.

The budget funds long-term care services for elderly and disabled persons in survival priority levels 10-13; accommodates higher wages and health and worker's compensation benefits for workers who provide in-home care to Medicaid long-term care clients; and partially restores the Oregon Project Independence program. The budget also funds a revised agreement governing services to developmentally disabled persons. Provider rate adjustments were made to restore rates to June 30, 2003 levels for all Medicaid long-term care providers; increase assisted living facility rates by 2.6% each year of the biennium; and allow for a nursing facility provider tax to enhance reimbursement rates and generate $12.5 million for transfer to the General Fund.

The Legislature added more than $325 million General Fund to the budget proposed by the Governor for the Oregon Health Plan. This will provide health benefits for federally required groups of eligible persons as well as all adults (without Medicare coverage) with incomes up to 100% of the federal poverty level (FPL), children in households with incomes up to 200% of the FPL, and pregnant women with incomes up to 185% of the FPL. General Fund was also appropriated to restore mental health crisis services and community services; partially restore adolescent day treatment services; partially restore alcohol and drug treatment services; and restore state support for school based health clinics. The juvenile diabetes data system and children's emergency services programs, approved by the 2001 Legislature but not implemented due to budget cuts, again received funding.

The budget also funds continued work on the Medicaid Management Information System (MMIS) replacement project. Project costs will be paid with $7.4 million of Certificates of Participation (COP) proceeds and $63.2 million in matching Federal Funds. General Fund will pay the debt service costs.

In response to legislative efforts to effect statewide savings, 207 vacant DHS positions (152.17 FTE) were eliminated in this budget, for $8.4 million General Fund and $16.9 million total funds savings. The budget was also reduced for anticipated Public Employee Retirement System employer rate savings, elimination of salary step ("merit") increases, and reductions in other agency charges and assessments.

The budget reflects improved federal Medicaid match rates, which will reduce the state's costs. For the 2003-05 biennium, the higher federal match rates save over $80 million General Fund and add over $80 million Federal Funds department-wide. Almost all of the increase – $78.3 million – is temporary federal fiscal relief authorized in the Jobs and Growth Tax Relief Reconciliation Act of 2003.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral to Oregon voters, then $182.8 million General Fund and Lottery Funds (DHS's share of $544.6 million statewide) will be disappropriated, based on the provisions of HB 5077. Almost 85% of this disappropriation ($154.1 million) would come from the Health Services budget, with the Children, Adults and Families budget and the Seniors and People with Disabilities budget each taking about a 7% reduction ($12.0 million and $12.8 million, respectively). If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. How DHS would manage any budgetary disappropriation or allotment reduction during the 2003-05 biennium has not yet been determined. It is likely, however, that programs and services for which funding was approved late in the 2003 session would be the first areas looked to for reductions after any operational savings have been identified.

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	207,508,915	173,276,028	211,824,743	199,311,554
Other Funds	85,507,650	143,312,759	120,953,609	118,689,620
Federal Funds	609,121,440	533,952,307	475,855,366	456,038,032
Nonlimited	388,854,951	673,618,779	723,692,651	797,706,255
Total	**1,290,992,956**	**1,524,159,873**	**1,532,326,369**	**1,571,745,461**
FTE	425.83	258.68	214.50	199.46

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, and Prevention Services. 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 slightly less than 13% of CAF's budget. Other Funds make up about 7% 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 support almost 80% of the total budget. Nonlimited Food Stamps benefits, which are 100% federally funded, make up just over 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 about $230 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 legislatively adopted budget anticipates over $90 million in federal Title IV-E Foster Care funds and over $70 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 child care and training programs into the Temporary Assistance for Needy Families (TANF) block grant. More importantly, PRWORA refocused public assistance efforts on employment and self-sufficiency and required client participation as a condition for receiving benefits. The legislation sunset September 30, 2002. Congress has approved temporary extensions to continue the program through March 31, 2004 while it considers program changes and determines future funding levels.

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 was more emphasis on participation in employment and training activities and greater penalties for non-cooperation. The federal waiver to operate under the Oregon Option expired in June 2003. It appears unlikely that the federal government will approve an extension of the waiver provisions. As a result, Oregon will need to meet the new, higher work participation levels expected to be part of program reauthorization, with potentially higher costs to Oregon to meet those requirements.

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 1994-95 base year. 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 Department of Human Services, Employment Department, Department of Education, and State Commission on Children and Families. Budget decisions on General Fund appropriations in these agencies can affect the state's ability to meet TANF MOE requirements.

With cash assistance caseloads declining since 1994, the base year for the TANF block grant, Oregon redirected TANF funds from cash assistance payments to employment and training and child care enhancements. It also used TANF to offset some General Fund expenditures in self sufficiency and child welfare programs. Many states built up large amounts of unobligated TANF funds through the 1990's. Oregon, however, chose to fully use available TANF funds and not "bank" caseload savings to hedge against future caseload growth. When caseloads began to increase again during the 2001-03 biennium, other TANF-supported services were reduced.

DHS has been 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 (DOJ) and county District Attorneys provided child support services under contract with DHS, with DHS maintaining administrative responsibility for the program. During the 2001-03 interim, the Department of Administrative Services, in response to a budget note, analyzed the potential of changing how the program is administered. The 2003 Legislature approved HB 2340 to move the responsibility of program administration from DHS to DOJ. DHS will continue to receive child support payments collected for public assistance clients to help offset state costs, but DOJ is responsible for program operations and oversight.

Child Welfare Services

For the year 2002, CAF reported an increase in the number of child abuse and neglect victims. 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 often face 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 required the System of Care approach be in place statewide by June 2003.

The 1997 federal Adoption and Safe Families Act 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 growing 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 was modified by a combination of management actions taken as part of DHS budget rebalances approved by the Emergency Board, and by budget reductions made in special legislative sessions. Overall funding increased due to growth in federal Food Stamp benefits. However, General Fund in this program area was reduced by a net $58.2 million. Major program changes included actions to:

- Transfer central administrative staff positions to the Department-wide Support Services budget.
- Reduce the TANF cash grant an average of $5 monthly.
- Eliminate separate funding for the JOBS Plus wage-subsidized employment program, and 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 support for the Klamath Adolescent Program, Father Taffee Foundation, and Outdoor School licensing program

Legislatively Adopted Budget

The adopted budget represents a 15% General Fund and a 3.1% total funds increase from the 2001-03 legislatively approved budget level. The budget supports expected caseload and cost increases in Food Stamps benefits, child foster care, Supportive Remedial Day Care, and Adoption Assistance. The Legislature added a total of $17.5 million General Fund to the Governor's budget to restore some of the 2001-03 interim reductions in Employment Related Day Care and Student Day Care; TANF cash grants; child welfare System of Care funding; foster care, special rates, and Adoption Assistance payments, but reduced funding for child welfare residential treatment and special contracts by $2 million General Fund. The budget does not fund General Fund inflation increases for program expenditures or cost-of-living increases for program providers. The budget was reduced by $18.8 million General Fund and $50.6 million total funds related to elimination of the Department-wide Support Services pro-rate assessment for central services. Funding for the Child Support program ($8.1 million

General Fund, $91.0 million total funds) was transferred to the Department of Justice in connection with HB 2340, which transferred program responsibility from DHS. Other legislative adjustments reflect lower Public Employee Retirement System and Attorney General rates, salary step ("merit") freeze savings, position reductions, and federal Medicaid match rate changes.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral to Oregon voters, then $12 million General Fund (CAF's share of $544.6 million statewide) will be disappropriated, based on the provisions of HB 5077. The $12 million is about 6% of the total CAF General Fund appropriation for 2003-05. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. How DHS would manage any budgetary disappropriation or allotment reduction in CAF during the 2003-05 biennium has not yet been determined. However, the Legislature's additions to the Governor's budget included Employment Related Day Care and Student Day Care; TANF cash assistance grants; child welfare System of Care resources; and foster care, special rates, and Adoption Assistance provider payments. These programs and services are probable candidates for reductions if disappropriations are made.

CAF – Self-Sufficiency

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	86,476,897	n/a	63,366,184	67,304,305
Other Funds	47,435,170	n/a	95,418,960	94,163,490
Federal Funds	401,909,080	n/a	240,836,997	228,905,943
Nonlimited	388,854,951	n/a	723,692,651	797,706,255
Total	**924,676,098**	**n/a**	**1,123,314,792**	**1,188,079,993**
FTE	3.00	n/a	0.00	0.00

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

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 Stamps 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 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. The JOBS Plus program provides subsidized job placements for some clients.

Employment Related Day Care This program is designed to encourage employment by subsidizing child care services for 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 state 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.

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 18,462 cases in July 2003, a 14.2% increase. JOBS program services and day care subsidies can help families reduce or end their need for cash assistance, 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 12,759 in July 2003, a 44% decrease. Employment Related Day Care cases dropped 22% over the same period, from 12,367 in July 2001 to 9,676 in July 2003.

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 dynamic 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.

The October 31, 2003 report on hunger by the U.S. Department of Agriculture, based on 2000-2002 data, estimated Oregon households to have the second-highest prevalence of food insecurity with hunger of any state, at 5.0% compared to a 3.3% national average. Oregon tied with Idaho for the seventh highest level of food insecurity (13.7%); the national average is 10.8%. Food Stamps are one way to directly address hunger. Food Stamps caseloads and benefits grew significantly over the 2001-03 biennium, from 146,642 households in July 2001 to 202,662 households in July 2003. This is a 38% increase over that 24-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.

Legislatively Adopted Budget

The 2003-05 budget for Self Sufficiency programs is 6.1% General Fund and 5.8% total funds more than the Governor's budget for these programs. The budget includes a total of $798 million for nonlimited federal Food Stamps and Food Stamps cash out benefits, $64.9 million more (8.9%) than the levels anticipated in the Governor's budget, and $124.1 million (18.4%) more than in the 2001-03 legislatively approved budget at the close of session.

Several of the budget reductions taken during the 2001-03 biennium as part of the statewide budget balancing effort are carried forward into the 2003-05 biennium. These include lower funding levels for JOBS education and support services and elimination of separate funding for the JOBS Plus wage-subsidized employment program. Eligibility for Employment Related Day Care (ERDC) remains limited to persons with incomes at or below 150% of federal poverty guidelines.

However, the Legislature approved $5.4 million General Fund to partially reverse increases in ERDC client co-payments. The Legislature also approved $1 million for day care assistance for post-secondary students, a 50% reduction from the level approved in the original 2001-03 budget. The average $5 per month reduction in the TANF cash grant was restored with $2.2 million General Fund.

Funding for Domestic Violence Emergency Assistance and other Emergency Assistance was approved at the Governor's budget level of $9.3 million total funds and $2.9 million total funds respectively. The Legislature also accepted the budget adjustments needed for HB 2340, which transferred responsibility for the Child Support program to the Department of Justice (DOJ). The Governor's budget shifted $8.1 million General Fund and $91 million total funds from the Self-Sufficiency budget to DOJ for this program. DHS will continue to receive collected child support payments to offset the cost of public assistance for those families who receive it.

CAF – Child Safety

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	14,934,433	n/a	5,460,535	11,426,623
Other Funds	13,378,238	n/a	4,380,761	5,362,382
Federal Funds	16,470,122	n/a	12,872,345	25,481,314
Total	**44,782,793**	**n/a**	**22,713,641**	**42,270,319**
FTE	0.00	n/a	0.00	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.

<u>Family Support Teams</u> 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.

<u>Mutual Home Foster Care</u> 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.

<u>Family-Based Services</u> 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.

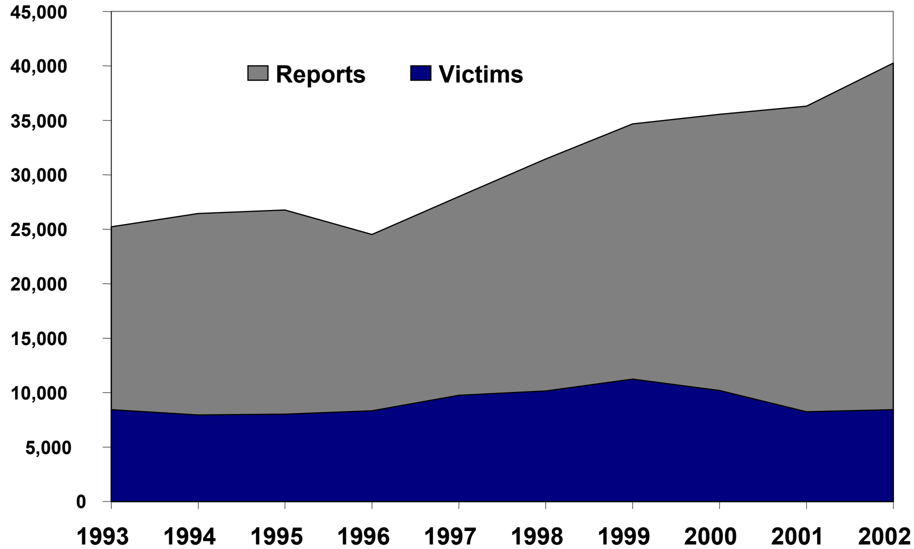
<u>System of Care</u> Flexible funds are used to support specific services not available through other sources but needed to address the individual requirements of children and families. Examples include mentoring services, behavioral intervention specialists, or specialized treatment services. These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

<u>Domestic Violence and Sexual Assault Services</u> 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.

Budget Environment

In 2002, CAF received 40,255 reports of suspected abuse and neglect, a 10.9% increase over just one year earlier. The number of victims increased from 8,232 in 2001 to 8,424 in 2002, a 2.3% increase. 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 10 years. Total abuse and neglect reports have increased by almost 60% over that period. The number of victims peaked in 1999, dropped significantly in 2000 and 2001, but increased slightly in 2002 to about the same level as in 1991. By comparison, there was almost an 11% increase in the number of children in the state over that 10-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 that funding, lower re-abuse rates and shorter length of stays in foster care. However, contracted services and System of Care flexible funds were reduced during the 2001-03 biennium due to declining statewide revenues and caseload growth in other Department of Human Services programs.

Legislatively Adopted Budget

The Child Safety budget is 109.3% General Fund and 86.1% total funds above the Governor's budget level. The increase reflects $5 million General Fund added to this budget for System of Care flexible funds; $2 million of that amount was shifted from the Community Human Services budget, and $3 million was an additional appropriation. The final budget funds a total $8 million General Fund for System of Care flexible funds.

The budget was increased by $1.8 million General Fund for re-projected Supportive Remedial Day Care caseloads and costs. SB 5513 increased the Criminal Fines and Assessment Account (CFAA) allocations to the Domestic Violence Fund by $597,248 and to the Sexual Assault Victims Fund by $147,346. The Governor's budget included $1,800,290 for the Domestic Violence Fund and $444,145 for the Sexual Assault Victims Fund.

CAF – Substitute Care

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	49,718,060	n/a	51,426,464	49,929,818
Other Funds	11,359,219	n/a	12,633,928	13,292,546
Federal Funds	90,873,781	n/a	98,373,155	106,428,054
Total	**151,951,060**	**n/a**	**162,433,547**	**169,650,418**
FTE	0.00	n/a	0.00	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.

<u>Foster Care</u> represents a broad range of care, supervision, and treatment services for children in temporary or permanent custody of the state. Family foster care homes and "special 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 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. At July 2003, the 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 7.5% during the 2001-03 biennium as a cost-saving measure, but will be restored to previous levels in November 2003.

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. These rates were also reduced during the 2001-03 biennium, but will be largely restored effective November 2003.

Legislatively Adopted Budget

The Substitute Care budget is down 2.9% General Fund but up 4.4% total funds from the Governor's budget. Adjustments were made for re-projected caseloads, costs, and revenues, including over $4 million in additional federal Title XIX Medicaid matching funds. Residential treatment and special contract services were reduced by $2.0 million General Fund, about 5% of total funding for those services, to carry forward funding reductions made during the 2001-03 biennium. The 7.5% payment reduction made during 2001-03 for foster care and special rate foster care providers was restored effective November 2003. There is no increase in the budget for inflation or cost-of-living adjustments for foster care or other providers.

CAF – Adoptions

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	22,161,491	n/a	44,272,888	42,624,563
Other Funds	560,013	n/a	1,413,914	1,390,168
Federal Funds	22,994,483	n/a	40,697,288	42,832,201
Total	**45,715,987**	**n/a**	**86,384,090**	**86,846,932**
FTE	0.00	n/a	0.00	0.00

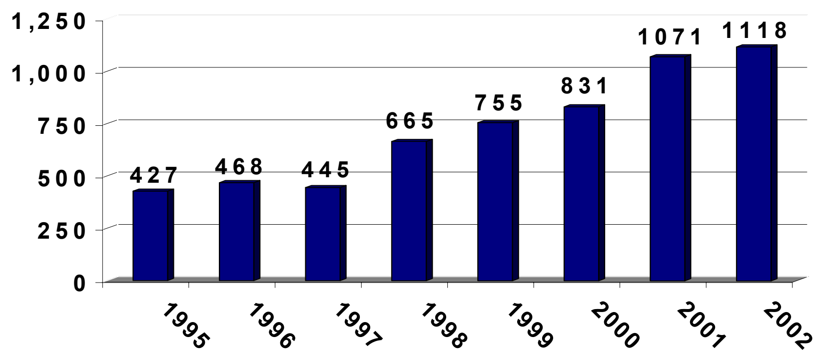
Program Description

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 chart below, 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 caseloads 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. Payments generally continue until the children "age out" at age 18. At this point, the recent increased state and federal emphasis on making adoptive placements means more children are being added to the caseloads than are "aging out". The average Adoption Assistance payment is about $400 per month. Monthly payments were reduced by 7.5% effective February 2003 as part of the state's overall budget reductions, although this reduction is restored effective November 2003 in the legislatively adopted budget.

Legislatively Adopted Budget

The legislatively adopted budget for this program area is 3.7% General Fund less but 0.5% total funds more than the Governor's budget level. The adopted budget reflects continuing growth in Adoption Assistance caseloads. The caseload is now estimated at an average of 8,186 cases monthly during the 2003-05 biennium, up 15.6% from the 7,083 cases used to build the Governor's budget. The estimated cost per case, however, has been adjusted downward from the estimates used in the Governor's budget, for a net $2.9 million General Fund, $5.6 million total funds savings. The Legislature added funding to restore the previous 7.5% Adoption Assistance payment reductions as of November 2003, but did not add inflation or cost-of-living adjustments to those rates. Funding was also increased by $0.4 million General Fund, $0.6 million total funds for Purchased Adoptions.

CAF – Other Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	456,987	n/a	754,113	1,197,210
Other Funds	6,534,925	n/a	1,618,832	1,352,852
Federal Funds	16,844,487	n/a	15,765,109	15,933,098
Total	**23,836,399**	**n/a**	**18,138,054**	**18,483,160**
FTE	0.00	n/a	0.00	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 Title XX 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 Foster Care 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 Title XX 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 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 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.

Legislatively Adopted Budget

The adopted budget for Other Programs is 58.8% General Fund and 1.9% total funds higher than the Governor's budget level. This reflects an increase in Tribal Program caseloads. As those caseloads increase, DHS transfers an increasing amount of General Fund and federal IV-E Foster Care funds to the tribes for foster care administration and maintenance.

CAF – Program Support/Central Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	33,761,047	n/a	46,544,559	26,829,035
Other Funds	6,240,085	n/a	5,487,214	3,128,182
Federal Funds	60,029,487	n/a	67,310,472	36,457,422
Total	**100,030,619**	**n/a**	**119,342,245**	**66,414,639**
FTE	422.83	n/a	214.50	199.46

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 DHS reorganization.

Legislatively Adopted Budget

The legislatively adopted budget for Program Support and Central Administration is 42.3% General Fund and 44.3% total funds less than the Governor's budget. This includes reductions of $18.8 million General Fund and $50.6 million total funds resulting from eliminating the Department-wide Support Services (DWSS) prorate for central administrative services. The funding previously budgeted in this unit for payment to DWSS was transferred to the DWSS budget.

The adopted budget reflects the 2003-05 impact of the 2001-03 administrative position transfers and reductions, as well as the transfer of seven positions and related funding to the Department of Justice for the Child Support program in connection with HB 2340.

The Legislature abolished 14 vacant positions, and three other positions related to System of Care, Continuous System Improvement, and Oregon Health Plan 2 waiver staffing. Total Personal Services reductions, including expected savings from Public Employee Retirement System assessment changes and the salary step increase ("merit") freeze, eliminated $1.8 million General Fund, $3.9 million total funds and 17 positions (15.04 FTE) from the Governor's budget level. Reductions in Attorney General charges totaled $0.3 million General Fund, $0.9 million total funds.

Funding for information technology work related to federal foster care and adoption program requirements was carried forward into the 2003-05 budget period. The agency will revert $650,000 not spent in 2001-03 for the projects to the General Fund, to offset the added $650,000 General Fund, $1.3 million total funds for 2003-05.

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	181,726,460	193,568,464	252,296,944	226,350,927
Other Funds	15,900,804	15,365,846	20,879,976	19,821,592
Federal Funds	257,635,669	277,137,442	331,511,369	305,285,638
Total	**455,262,933**	**486,071,752**	**604,688,289**	**551,458,157**
FTE	3,835.35	3,905.68	4,415.92	4,320.53

Summary Description

The Community Human Services program is an organizational structure created through the 2001-03 DHS reorganization to improve delivery of services and benefits to clients and increase accountability by removing organizational barriers. The CHS structure combines field staff formerly budgeted in program offices for Adult and Family Services, Services to Children and Families, Vocational Rehabilitation Programs, Senior and Disabled Services, 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, the designated state unit for administering the federal Vocational Rehabilitation Services 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; these 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; Medicaid; Medicare; Foster Care and Adoption Assistance; and Food Stamps. 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 about $50 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 integrated 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.

For many programs, DHS has developed standards which it uses to adjust staffing levels and budget based on caseload growth or reductions. 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 actions during the interim eliminated vacant positions, and made staffing adjustments for program reductions in JOBS, Employment Related Day Care, TANF, 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 Vocational Rehabilitation Services, 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.

During the 2003 session, the Legislature passed SB 5549 to implement DHS' 2001-03 budget rebalancing plan. This included reductions for administrative savings in the Services for Children and Families budget from the Governor's hiring freeze, and program and administrative savings in the Vocational Rehabilitation Services program. These totaled about $4.3 million General Fund and $13.5 million total funds.

Legislatively Adopted Budget

The legislatively adopted budget is 16.9% General Fund and 13.4% total funds higher than the 2001-03 legislatively approved budget at the close of the 2003 session. The budget growth reflects phased-in personal services cost increases from the 2001-03 biennium and significant caseload increases in mandated programs, predominately Food Stamps and child welfare programs. The approved budget carries forward almost all the reductions made in the 2001-03 biennium, including the HB 5100 reductions, but partially restores funding for the Independent Living Centers with $0.5 million General Fund. The Legislature reduced the Governor's budget to correct a double-funding of caseworker positions related to child welfare System of Care services. It approved other caseload-related staffing adjustments, but did not fund 38 positions (35.88 FTE) not included in the Governor's budget for projected 2003-05 growth in non-mandatory programs such as TANF, Employment Related Day Care, and Emergency Assistance. The budget eliminates 76 vacant positions (59.0 FTE), saving $3.5 million General Fund and $6.2 million total funds. Inflationary increases of $0.9 million General Fund, $1.8 million total funds were also eliminated. Other legislative action reduced the budget by a total of $16 million General Fund, $31.1 million total funds from statewide actions to freeze employee salary step ("merit") increases and reduce Public Employees Retirement System and Attorney General assessments.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through referral to Oregon voters, then $54,450 General Fund (CHS' share of $544.6 million statewide) will be disappropriated, based on the provisions of HB 5077. If the statewide disappropriation total of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. How DHS would manage any budgetary disappropriation or allotment reduction in CHS during the 2003-05 biennium has not yet been determined. However, the Legislature's additions to the Governor's budget included staffing related to increased funding in the Children, Adults and Families budget for Employment Related Day Care, Student Day Care, and TANF cash assistance grants. If these or other programs are scaled back, field staffing supporting the programs would be adjusted as well.

CHS – Program Support

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	169,522,613	n/a	240,085,228	216,036,298
Other Funds	13,433,690	n/a	16,969,005	16,365,015
Federal Funds	223,388,312	n/a	289,101,859	273,086,455
Total	**406,344,615**	**n/a**	**546,156,092**	**505,487,768**
FTE	3,804.82	n/a	4,314.28	4,230.18

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

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 have 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 Assessment Account (CFAA) 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 (TANF), 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 TANF, Child Care and Development Fund, and the Social Services Block Grant are capped. When costs chargeable to these funds exceed available federal funding, General Fund may be used to make up the shortfall.

Budget Environment

The Legislature has historically funded staff to support 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 had to handle increasing workloads. Lower staffing levels increase the potential for service backlogs and errors.

During 2001-03, program reductions needed to meet the HB 5100 funding reductions resulted in the elimination of 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, put at risk Oregon's ability to comply with federal child welfare regulations under the Adoption and Safe Families Act and increased the risk of legal action by child welfare advocates.

Other staffing adjustments were made for budget reductions in TANF 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.

Legislatively Adopted Budget

The legislatively adopted budget is 10% General Fund and 7.4% total funds less than the Governor's budget. The budget fully funds field staffing for current and projected caseloads for services such as Food Stamps, child welfare and Medicaid long-term care. The Legislature approved a net 29 new positions (13.58 FTE) and related funding to adjust the Governor's budget for program changes throughout DHS, primarily in the Seniors and People with Disabilities program area, to correct child welfare System of Care staffing, and to support TANF and Employment Related Day Care program restorations in the Children, Adults and Families budget. The Legislature did not, however, approve $3.3 million General Fund and $3.6 million total funds needed to pay for 38 staff positions (35.88 FTE) requested for projected growth in TANF, Employment Related Day Care, and Emergency Assistance services. CHS was directed to continue efforts to improve efficiency in program delivery, and manage work loads and staffing across its programs. The Legislature eliminated the 45 positions (43.97 FTE) added by Emergency Board action in October 2002 to support the OHP 2 waiver, and cut 69 other, vacant positions (53.71 FTE) in the Program Support budget. CHS' improved management of temporary staffing costs provided savings of $0.8 million General Fund and $1.4 million total funds. In total, these adjustments, together with expected savings from Public Employee Retirement System assessment changes and the salary step increase ("merit") freeze, reduced the Program Support budget by $24 million General Fund, $40.7 million total funds, and 85 positions (84.10 FTE).

CHS – Office of Vocational Rehabilitation Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,807,583	n/a	5,021,315	4,870,892
Other Funds	2,410,471	n/a	1,779,636	1,779,636
Federal Funds	25,513,998	n/a	27,349,322	24,812,780
Total	**35,732,052**	**n/a**	**34,150,273**	**31,463,308**
FTE	0.00	n/a	0.00	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 federal revenue supporting Section 110 of the 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%. DHS' 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, for field staff and central administrative staff in the Community Human Services Program Support and Central Administration budgets, and in the Department-wide Support Services budget.

Rehabilitation Services revenue also includes federal Rehabilitation Act funds for Supported Employment and staff training. 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.

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, about 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, which reauthorized the 1973 Rehabilitation Act and attempted to provide better coordination of workforce training programs. In 1999, Congress enacted the Ticket to Work and Work Incentives Improvement Act. This Act 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 Act allows persons with disabilities to retain Medicaid health care coverage when they earn wages. Many persons with severe disabilities who never considered working may now want to pursue vocational goals and seek rehabilitation services. DHS may experience an increase in clients—particularly those with very severe disabilities — with a resulting 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. Oregon has been designated one of twelve states to pilot the provisions of this Act.

Legislatively Adopted Budget

The Legislature reduced the OVRS budget by 3% General Fund and 7.9% total funds from the Governor's budget level. The budget carries forward the 2001-03 interim reduction that eliminated the Sheltered Services Program for about 100 severely disabled clients working in rehabilitation facilities ($851,785 General Fund). The Governor's budget did not include $1.3 million General Fund first added in the 2001-03 budget for the Independent Living Infrastructure Program, which supports grants to local Independent Living Centers. The Legislature partially restored this funding at $0.5 million General Fund for the 2003-05 biennium. Funding for vocational services was reduced by $0.7 million General Fund and $2.4 million Federal Funds, carrying forward savings identified in the 2001-03 biennium. The budget does not fund General Fund inflationary increases for remaining program services.

CHS – Central Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	4,396,264	n/a	7,190,401	5,443,737
Other Funds	56,643	n/a	2,131,335	1,676,941
Federal Funds	8,733,359	n/a	15,060,188	7,386,403
Total	**13,186,266**	**n/a**	**24,381,924**	**14,507,081**
FTE	30.53	n/a	101.64	90.35

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.

Legislatively Adopted Budget

The Central Administration budget is 24.3% General Fund and 40.5% total funds less than the Governor's budget. The Governor's budget included 2001-03 biennium reductions for this budget unit, eliminating one position, funding for cost of living increases for positions at salary range 38 and above, and General Fund inflation increases in services and supplies expenditures. The Legislature approved the transfer of six positions (6.00 FTE) and related funding from Central Administration to Program Support, and eliminated seven other vacant positions (5.29 FTE). These Personal Services adjustments, together with expected savings from Public Employee Retirement System assessment changes and the salary step increase ("merit") freeze, reduced the budget by $0.9 million General Fund and $3.1 million total funds. Inter-agency charges were eliminated for the Department-wide Support Services (DWSS) assessment and the funding moved to the DWSS budget ($0.7 million General Fund, $5.5 million Federal Funds). Others services and supplies reductions totaled $0.1 million General Fund and $0.5 million total funds.

DHS/Department-Wide Support Services – Program Area Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	76,730,089	91,078,002	66,159,199	94,919,381
Other Funds	133,792,955	67,866,652	140,244,040	39,845,084
Federal Funds	87,955,678	159,631,689	165,187,858	219,500,992
Total	**298,478,722**	**318,576,343**	**371,591,097**	**354,265,457**
FTE	731.49	909.27	925.18	904.17

Summary Description

The Director's Office, centralized business services, and other administrative support for DHS programs are all part of Department-wide Support Services. Major functions within DWSS include the following:

- *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. This section is also 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.

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, and avoids double-counting the expenditures. Due to the timing of the change, the Governor's budget included $120 million Other Funds expenditure limitation based on the pro-rate. The 2001-03 and 2003-05 budgets were adjusted during the 2003 session to reflect the estimated impact of eliminating the pro-rate, significantly reducing Other Funds but increasing General Fund and Federal Funds in this budget. Further adjustments may be needed in 2003-05 as the new cost allocation plan is applied to actual expenditures.

The DWSS budget includes over $11 million Other Funds from recoveries of Medicaid and other over payments. Financial recovery staff expect to generate over $50 million in collections during the 2003-05 biennium. Most of these revenues are used elsewhere in DHS to offset General Fund expenditures for program services, but the DWSS budget includes the Other Funds and Federal Funds revenue used to pay costs of the collection staff. Also, under the new DHS federal cost allocation plan, some DWSS costs will be allocated to the Title VI Child Care grant DHS receives 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. 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, and other federal program funding sources.

Budget Environment

During the 1995-97 biennium, many 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. Accounting, personnel and payroll, contract administration, budget coordination, building operations, and information systems functions were all part of this initial consolidation. The DHS reorganization in the 2001-03 biennium moved more than 280 additional administrative and support services positions from the program units to DWSS. These included Community Partnership Team, LifeSpan Respite Care, health care interpreters, and financial recovery positions.

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 in General Fund savings was identified and transferred to the DWSS budget. However, in the face of statewide budget reductions, only $2.4 million of the savings was spent on reinvestment costs and the balance was eliminated. Most of the reinvestment savings was spent on information systems improvements; this funding will not be carried forward into the 2003-05 budget.

In the 2001-03 biennium, DHS originally expected to allocate $1.5 million of the $6 million of reorganization savings for Continuous System Improvement (CSI) work. CSI staff worked with all DHS programs to support training, research and evaluation, process improvement consultation, performance measures, and accountability. Only about $0.1 million was spent in that area due to budget reductions during the interim. As part of DHS's April 2003 rebalance plan (SB 5549) the CSI unit was dissolved. A total of six positions were eliminated in this budget, with two more eliminated in the Children, Adults and Families and Health Services budgets. The remaining functions and positions were transferred elsewhere in the Department.

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 existing Medicaid Management Information System (MMIS), for example, 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 a replacement system began in the 1999-2001 biennium, and is expected to be completed during the 2005-07 biennium. Much of the work qualifies for a 90% Federal Funds match.

The current reorganization effort offers opportunities for improvements in business operations and information 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 directly 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. For example, Emergency Board actions during the biennium added 13 positions and related funding in DWSS to support a planned expansion of the Oregon Health Plan (OHP) under the OHP 2 waiver. The 2003 Legislature did not fund these positions for 2003-05. Nor did the Legislature approve $5.2 million General Fund and $5.4 million Federal Funds requested by the agency for centralized costs associated with other field and program support staffing growth for the 2003-05 biennium.

During the 2001-03 interim, funding for DWSS was reduced as part of several DHS rebalance plans and the 2002 special session actions. The General Fund reductions were made through selected staffing cuts, higher federal funding levels for the MMIS replacement and mental health information system projects, other information systems project savings and reductions, and administrative services and supplies expenditure reductions. The selected staffing cuts eliminated funding for a total of 39 positions in Administrative Services, the Director's Office, and Finance and Policy Analysis. The 2003 Legislature approved further budget reductions in SB 5549, primarily for information systems project savings.

Legislatively Adopted Budget

The legislatively adopted budget is 4.2% General Fund and 11.2% total funds higher than the 2001-03 legislatively approved budget level at the close of the 2003 session. The overall increase reflects phased-in funding for greater centralization of administrative staff during the 2001-03 biennium, and further development of the MMIS replacement project. The Legislature also adjusted both the 2001-03 and 2003-05 budgets to eliminate the pro-rate previously charged to the divisions and program offices in DHS. For 2003-05, this decreased DWSS's Other Funds by $105.6 million but added $40.5 million General Fund and $61.7 million Federal Funds to the Governor's proposed budget totals.

The Legislature approved the use of Certificates of Participation (COPs) to fund the state's share of the MMIS project. The Other Funds will be used to match Federal Funds to pay for project costs, with General Fund used to pay debt service on the COPs. The budget includes $1.3 million General Fund for the estimated 2003-05 debt service costs, and $7.5 million Other Funds and $63.2 million Federal Funds for 2003-05 project costs. The approved package also 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 system.

The Governor's budget package to finalize work on the Women, Infants and Children Information Tracker (TWIST) system and add one new permanent position (1.00 FTE) for on-going system work was approved. The system is expected to be operational statewide early in 2004.

The Legislature approved the Governor's proposal to not fund inflationary cost increases for services and supplies expenditures, a $1.4 million General Fund savings in the Governor's budget. Budget and staffing reductions made during the 2001-03 interim were also generally carried forward in the 2003-05 budget. The Legislature eliminated 39 other vacant positions (16.26 FTE), saving $0.7 million General Fund and $1.9 million total funds. More reductions were made to eliminate 13 staff positions (13.00 FTE) related to the Oregon Health Plan 2 waiver expansion planned during the 2001-03 interim ($1 million General Fund, $1.5 million Federal Funds), and six (6.00 FTE) Continuous System Improvement unit positions ($0.1 million General Fund, $0.1 million Federal Funds).

The budget adds 16 positions (12.25 FTE) to generate additional medical payment recovery revenues to offset General Fund in the Health Services budget. The Legislature also approved the Governor's budget proposal to add one new position (1.0 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.

Other legislative action reduced the budget by $3.8 million General Fund and $10.9 million total funds from freezing employee salary step ("merit") increases and applying statewide reductions for Public Employees Retirement System, Department of Administrative Services, Department of Justice Attorney General, Secretary of State Audits Division, and Capitol Planning Commission assessments. The Legislature also eliminated $1.6 million General Fund in reorganization reinvestment savings that had been earmarked for hardware and software puchases.

The DWSS budget also reflects the fiscal impact of legislation that transferred responsibility for the child support program from DHS to the Department of Justice (HB 2340), transferred statutory responsibility for the Office of Children's Advocate from the State Commission on Children and Families to DHS (HB 2522), clarified timelines for claims against estates for recovery of public assistance (HB 2342), and allowed DHS to issue warrants in some collection cases (HB 3629).

DHS/Health Services (HS) – Program Area Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,033,426,893	946,996,718	948,348,383	1,099,810,831
Lottery Funds	5,045,990	5,894,888	6,878,546	5,600,000
Other Funds	425,336,933	854,912,983	723,869,291	749,718,439
Federal Funds	1,908,327,453	2,491,437,923	2,193,228,726	2,629,049,422
Nonlimited	91,805,803	110,879,000	108,209,250	109,433,714
Total	**3,463,943,072**	**4,410,121,512**	**3,980,534,196**	**4,593,612,406**
FTE	1964.70	2,094.55	2194.00	2,138.76

Note: The 2001-03 Legislatively Approved Budget is based on the 2001-03 DHS budget rebalance plan approved by the 2003 Legislative Assembly in SB 5549.

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 legislatively adopted budget (LAB) includes $1.1 billion of General Fund. The chart below summarizes the 2003-05 funding levels for each major program area within the Health Services Cluster.

Adopted Budget (In millions of $)	General Fund	%	Total Funds	%
Public Health	$ 15.7	1	$ 231.2	5
Oregon Health Plan	728.0	66	3,657.4	80
Mental Health & Addiction Services	303.5	28	485.4	10
Program Support & Cent. Admin.	51.4	5	218.3	5
Capital Improvements - State Hosp.	1.2	0	1.2	0
Total	$1,099.8	100	$4,593.6	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 nearly 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 1,314.79 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 (about $414.6 million), Tobacco Settlement ($42.2 million), pharmaceutical manufacturer drug rebates, client contributions, third party recoveries, numerous licensing and other fees, and other governmental agency funds eligible for federal match. The budget includes $5.6 million of Lottery Funds dedicated to the treatment of problem gambling and addiction.

Federal Funds revenue is dominated by Medicaid which accounts for nearly 90% of the cluster's $2.6 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 LAB for Medicaid is 37.65% state funds and 62.35% 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.

Nonlimited 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 changes in health care costs and utilization. For example, the actuary who recommends changes in the rates that are paid to fully capitated health plans to provide managed care, estimated in December of 2002 that the rates should be raised more than 25% in the 2003-05 biennium to account for increases in utilization of services and medical inflation (e.g., in pharmaceuticals and other technologies). Also, the Oregon Health Plan caseload grew throughout the 2001-03 biennium as the economy worsened. Mental Health and Addiction Services have been greatly influenced by the nature of mental illness and, fortunately, like many somatic health services, by effective treatment technology. An ideal mental health system would offer a continuum of services because mental illness is dynamic and varies in severity. For this reason, services over the last 40 to 50 years have become less institutional and centralized and more community-based. The advancement of pharmacological treatment has also enabled more mental health services to be provided at the community level.

Legislatively Adopted Budget

For the most part, the Governor’s budget continued reductions that were initiated during the 2001-03 biennium to balance the statewide budget. In addition, his budget did not include funding for 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 eliminated adult dental services and would have required a more stringent prior authorization process for the distribution of prescription drugs in the Oregon Health Plan.

The budget and structure of the Oregon Health Plan was a primary focus of the Legislature during its 2003 session. In addition to the Joint Committee on Ways and Means, several human services committees as well as committees created specifically to study health plan policy extensively reviewed the policy and budget underlying the Oregon Health Plan. In the end, the Legislature made significant budgetary restorations to the Governor’s budget and implemented various policy reforms. The Legislature also provided additional funding for mental health services which had been cut in the Governor’s budget.

The legislatively adopted budget reflects Public Employee Retirement System changes, the elimination of funding for merit raises and funding for a number of vacant positions (along with the positions), and the elimination of prorating Departmental administrative costs to program clusters. Overall, the LAB is $613.1 million total funds higher than the Governor’s budget. The General Fund increase is $151.5 million and Federal Funds are increased by $435.8 million. Most of the increase is within the Oregon Health Plan. The budget also includes the impact of an improved federal Medicaid match rate—based on a traditional formula of relative per capita income—as well as an enhanced Medicaid match that was approved by Congress in its Jobs and Growth Tax Relief Reconciliation Act of 2003. This legislation temporarily raises the federal Medicaid match rate for five quarters beginning in April 2003.

HS – Health Planning and Community Relations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	4,385,279	n/a	4,216,253	4,225,676
Other Funds	67,607	n/a	0	0
Federal Funds	1,518,063	n/a	805,102	7,629,157
Total	**5,970,949**	**n/a**	**5,021,355**	**11,854,833**
FTE	0.00	0.00	0.00	0.00

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

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 in the Governor's budget 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). The legislatively adopted budget added nearly $6.7 million of federal bioterrorism grant revenue.

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. In addition, the country's concern about possibilities of bioterrorism led Congress to provide greater funding to states to prepare appropriate public health responses.

Legislatively Adopted Budget

The Governor's 2003-05 budget of $5 million included 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 reflected reductions based on special session actions during the interim. The changes include reducing the per capita payment given to counties for communicable disease control.

The legislatively adopted budget reflects the addition of $6.7 million of Federal Funds expenditure limitation to accommodate the use of greater bioterrorism grant revenue than anticipated in the Governor's budget.

HS – Public Health Systems

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	44,441	n/a	0	100,000
Federal Funds	854,330	n/a	1,532,586	1,532,586
Total	**898,771**	n/a	**1,532,586**	**1,632,586**
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 nearly all 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%). The $100,000 of Other Funds expenditure limitation in the legislatively adopted budget reflects the restoration of revenue from the criminal fines and assessment account.

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.

Legislatively Adopted Budget

The Governor's budget of $1.5 million included program changes that occurred during the 2001-03 biennium. His budget included the elimination of Other Funds revenue as a result of a proposed re-direction of criminal fines and assessment account funds. The Legislature did not completely approve this proposal and subsequently added $100,000 of Other Funds expenditure limitation in this budget to allow DHS to spend this revenue in the 2003-05 biennium for emergency medical services and trauma systems. An additional $250,000 of Other Funds expenditure limitation supported by criminal fines and assessment revenue was allocated to the Health Services program support budget.

HS – Family Health Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	9,185,942	n/a	6,371,707	9,087,436
Other Funds	3,721,787	n/a	244,000	254,010
Federal Funds	54,812,876	n/a	74,679,079	75,772,544
Nonlimited	91,376,943	n/a	108,209,250	109,433,714
Total	**159,097,548**	n/a	**189,504,036**	**194,547,704**
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 (nonlimited) revenue through an infant formula rebate agreement. Expenditures from the federal WIC Food Grant ($80.8 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 workload 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.

Legislatively Adopted Budget

The Governor's budget of $189.5 million included a reduction of $2.3 million General Fund based on special session actions during the interim. The reduction eliminated state funds for School Based Health Clinics and reduced prenatal and perinatal health programs. The Governor's budget also included nearly $1.4 million Federal Funds to provide 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.

The Legislature added $2.7 million General Fund to restore state funding for school-based health clinics. WIC nonlimited funds were also increased by $1.2 million to reflect a more accurate expectation of caseload and program costs. The $1.1 million increase in limited Federal Funds from the Governor's budget to the LAB is the result of correcting an error in the Governor's budget that allocated more Federal Funds to Program Support and Central Administration than was warranted.

HS – Disease Prevention and Epidemiology

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,434,552	n/a	2,327,226	2,418,226
Other Funds	9,237,096	n/a	8,363,215	3,466,863
Federal Funds	11,583,004	n/a	10,392,086	17,328,134
Total	**23,254,652**	n/a	**21,082,527**	**23,213,223**
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). This budget includes funding for tobacco use education and prevention as well as the prevention of breast cancer. The Office also provides program design and evaluation services.

Revenue Sources and Relationships

Federal Funds revenue support approximately 75% of the legislatively adopted budget. 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), a variety federal grants support targeted projects within each of the programs ($144,966), and bioterrorism grant funds.

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 of Other Funds revenue ($2.2 million in the adopted budget) is from tobacco taxes resulting from the passage of Ballot Measure 44 in 1996. This measure required that three cents per pack of the state's tobacco tax be used for tobacco education and prevention efforts.

Budget Environment

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

Tobacco use has declined recently, 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.

Legislatively Adopted Budget

The Legislature increased the Governor's budget of $21 million total funds by $2.1 million. This net increase is the result of increasing the Federal Funds expenditure limitation by $6.9 million to accommodate more bioterrorism grant revenue, but decreasing the flow of tobacco tax revenue for education and prevention efforts. The Legislature reduced this revenue by nearly $10.0 million, from $15.7 million in the Governor's budget to $5.7 in the legislatively adopted budget. Part ($2.2 million) of the $5.7 million of tobacco tax is included in this budget; the remainder is in the Health Services' Program Support and Central Administration budget.

HS – Medical Assistance Programs: OHP Payments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	683,540,926	n/a	544,109,936	683,713,134
Other Funds	291,479,361	n/a	572,927,551	652,532,514
Federal Funds	1,485,810,596	n/a	1,700,743,111	2,134,879,764
Total	**2,460,830,883**	**n/a**	**2,817,780,598**	**3,471,125,412**
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 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 400,000 Oregonians who are eligible for Medicaid. Nearly 70% 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 30% 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 began 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 was approved by CMS in October 2002. Although the 2003 Legislative Assembly made changes in health plan policy, the OHP2 waiver will remain the governing agreement for the Oregon Health Plan until a new set a waivers and state plan amendments are approved by CMS. The OHP2 waiver allows Oregon to distinguish its program 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. This provision of the waiver was modified by the 2003 Legislative Assembly. The Legislature established a minimum OHP Standard package that would include primary care, prescription drugs, mental health treatment, and alcohol and drug abuse treatment benefits. The "optional" benefit would be hospital coverage. In other words, the hospital benefit could be eliminated by the Legislature (without further CMS approval) if funding were unavailable. Until the last few days of the 2003 session, it appeared that the hospital benefit might be dropped from the Standard benefit package. In the end, however, the Legislature in agreement with hospitals and managed care plans, passed a provider tax. The higher revenue produced by this tax will enable the state to provide an emergency hospital benefit to the Standard population.

- *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. The 2003-05 budget anticipates that further treatment reductions will be made, but although DHS has requested CMS approval, those reductions had not been approved at the time this was written.

- *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. In addition, seniors (and persons with disabilities) who are eligible for Medicaid long-term care are also eligible for the health plan. The income standard for Medicaid long-term care is 300% of the SSI grant, or about 240% of FPL. To qualify for long-term care, however, a person must have significant functional impairments.
- Blind and disabled persons who are eligible for SSI or, like seniors, are eligible for Medicaid long-term care.
- 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 had been eliminated in the Governor's budget, but was restructured and restored within the legislatively adopted 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 Legislature 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 were 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. While the Legislature during the 2001-03 interim bonded most of the next four years of Tobacco Settlement revenue to meet revenue shortfall, the legislatively adopted budget for the 2003-05 biennium includes $42.2 million of Tobacco Settlement revenue. 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 nearly $408.6 million. This forecast relies on continuing the 10 cent temporary tax which was extended by the 2003 Legislative Assembly. Within that amount, the budget uses $390.2 million for OHP payments and $18.4 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 adopted budget assumes a Medicaid match rate of

37.65% General Fund or state funds to 62.35% Federal Funds. The Federal Funds portion is significantly higher than that assumed in the Governor's budget and includes an enhancement for the first year of the biennium that was approved by Congress in the spring of 2003.

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 has limitations. Because of its reliance upon recent historical data the model could not predict the significant upswing in caseload that resulted during the 2001-03 biennium from the economic recession. Nor could the model accurately predict the rapid reduction in the Standard caseload that occurred in the spring of 2003 resulting from the elimination of benefits and, more importantly, the imposition of cost sharing in the form of premiums.

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 developed 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. The recently approved changes in Medicare, for example, will influence the health plan budget because the state pays Medicare premiums on behalf of low-income seniors and because the health plan covers prescription drugs for many of them as well.

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.

Revenue Shortfalls – Like all state budgets, the 2001-03 OHP budget changed significantly over the course of the 2001-03 biennium. Special session and Emergency Board actions both added and reduced the General Fund budget. Most of these action were carried over by the Governor's budget and were debated extensively during the 2003 legislative session. Most notably, the Legislature in the 2002 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 was $209 million. As noted earlier, the 2003-05 budget includes about $42.2 million of Tobacco Settlement revenue. Further, 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. 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 the OHP Plus benefit package by eight treatment pairings. HB 5100 from the 2002 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. The OHP Standard prescription drug benefit was restored early in the 2003 legislative session.

Legislatively Adopted Budget

The Governor's budget assumed that all of the reductions generated in response to HB 5100 would be carried forward into the 2001-03 biennium. In addition, the Governor's budget eliminated 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 lowered health plan costs by $849 million total funds ($332 million General Fund). For legislators, policy analysts, and health care providers, eliminating all rate increases attributable to cost-of-living or utilization adjustments proved problematic. Because of rising health care costs, this budget option would probably have created 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. Despite its shortcomings as a bona fide policy choice, the Governor's budget did underscore the significant challenge of containing health care cost increases. It also served 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 result, the legislative focus during the 2003 session began with an assessment of eligibility groups and the services that are mandatory under Medicaid law.

Various legislative committees requested DHS to price different configurations of the health plan. As a starting point, the Department was asked to list the Medicaid mandatory populations and services and price a plan using various inflationary and utilization rates. After that, the Department priced additional services and various incremental optional populations. Initially, the results of this modeling were discouraging. Covering all current eligibles using reasonable rates of inflation and utilization would not be possible given the limited revenue available for the health plan. Even so, the Legislature sought to continue coverage—especially for the OHP Standard population. In the end, the Legislature was provided a state funded OHP Standard primary care benefit that included physician services, prescription drugs, mental health, and addiction treatment services. To provide a limited or emergency OHP Standard hospital benefit, however, eventually required the Legislature to approve a provider tax that will, if approved by CMS, be imposed upon managed care plan and hospital revenue. The tax is expected to generate $106.1 million of Other Fund revenue. This revenue can be used in lieu of General Fund to purchase an OHP Standard emergency hospital benefit and increase various diagnostic-related groupings (DRG) hospital rates. The budget does not include Other Funds or Federal Funds expenditure limitations for the provider taxes.

The chart below is a summary of the total funds budget (in millions of $) for various OHP-related services.

Payments to Managed Care Organizations (Fully Capitated Health Plans, Dental Care Org., Mental Health Organizations)	$1,760.4
OHP Special Purpose Appropriation to Emergency Board	8.0
Fee for Service (FFS) Payments:	
Inpatient Hospital	154.5
Outpatient Hospital	103.0
Physician Services	200.0
Other including transport., A&D treatment, DME	301.6
Prescription Drugs	512.7
Dental	1.5
Mental Health treatment	26.7
Leverage Expenditure Limitation	242.4
Pass Through Payments	60.3
Federally Qualified Health Clinic Settlements	45.0
Other Adjustments	55.0
Total OHP Payments	$3,471.1

Leverage Expenditure Limitation allows the Department to receive Other Fund revenue from school districts, the Department of Education, and the Oregon Health and Science University—match it with federal Medicaid revenue and return all of the revenue from whence the Other Fund match came. Pass through payments are additional payments made primarily to hospitals to compensate them for serving higher proportions of Medicaid clients. Federally Qualified Health Clinic (FQHC) settlements are made in accordance with federal law which requires full cost-based reimbursement for these clinics.

To summarize, the 2003 Legislative Assembly provided an OHP budget that:
- retains and restores many benefits for the OHP Standard population;
- anticipates an average managed care enrollment of 70%;
- increases rates for physical health managed care providers 9.2% each year of the biennium;
- restores DRG hospital outlier payments;
- provides a limited durable medical and emergency dental benefit for OHP Standard recipients; and
- eliminates the use of prior authorization for fee-for-service prescription drugs, but assumes other pharmaceutical cost management actions including encouraging the use of mail order pharmacies and managing drugs used to treat mental illness.

HS – Medical Assistance Programs: Non-OHP Payments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	58,408,076	n/a	46,042,442	44,269,039
Other Funds	3,357,876	n/a	7,116,483	7,116,483
Federal Funds	89,862,846	n/a	63,443,663	65,217,066
Total	**151,628,798**	**n/a**	**116,602,588**	**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:
- *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, DHS 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. The average monthly caseload is expected to be about 9,400 and the program budget is $12.8 million total funds.
- *Persons over 65 years of age or disabled who are eligible for both Medicare and Medicaid.* DHS pays the Medicare Part-B premium. During the 2003-05 biennium, the Department expects the average caseload to be nearly 67,000 monthly cases costing $97.1 million total funds.
- *Persons qualifying for the Breast and Cervical Cancer Prevention and Treatment Program.* Under this 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 HB 3214 to implement the program in Oregon. The average caseload is expected to be about 70 and the program budget is $1.4 million total funds.

Revenue Sources and Relationships

The General Fund appropriation and Other Funds revenue from drug rebates for the 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.

Legislatively Adopted Budget

The Medically Needy program, which was historically part of the Non-OHP budget was eliminated in the Governor's budget and the legislatively adopted budget. However, the 2003 Legislative Assembly funded a replacement program, known as the MEDS, or Medical Expansion for persons with Disabilities and Seniors program, to partially replace the Medically Needy Program. The budget for the MEDS program is in the OHP-Payments budget. State implementation of the MEDS program requires approval by the federal Centers for Medicare and Medicaid Services (CMS). The lower General Fund appropriation, but higher Federal Funds expenditure limitation in the legislative budget than the Governor's budget, is the result of including a higher federal revenue share for Oregon's Medicaid program, as noted earlier.

HS – Medical Assistance Programs: CHIP Payments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	63,800	n/a	0	0
Other Funds	8,576,478	n/a	12,019,740	18,393,702
Federal Funds	22,217,882	n/a	31,077,211	51,305,813
Total	**30,858,160**	**n/a**	**43,096,951**	**69,699,515**
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.

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. The 2003 Legislative Assembly approved an expansion of the program to 200% 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.

Legislatively Adopted Budget

The legislatively adopted budget of $69.7 million total funds is $26.6 million higher than the Governor's budget. The increase is the result of expanding the program to children in households with incomes up to 200% FPL (rather than 185% as it was under the OHP2 waiver) as well as providing rate increases to providers (hospitals, physicians, pharmacies, and managed care plans).

HS – Mental Health and Addiction Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	232,123,451	n/a	290,296,506	303,491,591
Lottery Funds	4,552,012	n/a	6,689,823	5,259,657
Other Funds	55,283,854	n/a	44,748,687	33,036,659
Federal Funds	144,967,693	n/a	129,008,507	143,697,944
Total	**436,927,010**	n/a	**470,743,523**	**485,485,851**
FTE	1214.42	n/a	1321.79	1314.79

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.

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.

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 adolescent 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 budget for mental health and addiction services includes funding for 1,314.79 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 (roughly $100 million of the $143.7 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.

Legislatively Adopted Budget

The legislatively adopted budget of $485.5 million total funds ($303.5 million General Fund) is $14.8 million higher than the Governor's budget. The increase is the result of several program restorations that were made by the 2003 Legislative Assembly. These restorations included $3.9 million General Fund to partially restore round-the-clock mental health crisis intervention services and $11.8 million General Fund for mental health services for children and adults who are not eligible for Medicaid. In addition, the budget reflects the use of $10.5 million General Fund and $6.7 million Federal Funds to replace a $17.2 million Other Fund revenue hole that had been an ongoing problem for the Department. (The agency was directed to report to the Emergency Board about its revenue tracking at the time it submitted its first 2003-05 interim rebalance plan. The budget also includes a reduction in General Fund (and a concurrent increase in Federal Funds) to take advantage of an enhanced Medicaid match rate as well as Public Employee Retirement System and vacant position adjustments at the State Hospital.

HS – Program Support and Central Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	42,149,923	n/a	53,820,995	51,442,411
Lottery Fund	0	n/a	0	340,343
Other Funds	53,568,433	n/a	78,449,615	34,818,208
Federal Funds	96,700,163	n/a	181,547,381	131,686,414
Total	**193,341,357**	n/a	**314,006,714**	**218,287,376**
FTE	750.28	n/a	872.21	823.97

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 16% 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 60% of the 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 (generally matched at 50% for administrative functions), and Women, Infants, and Children program funding.

Legislatively Adopted Budget

The legislatively adopted budget of $218.3 million total funds is $95.7 million lower than the Governor's budget of $314.0 million. The reduction is primarily the result of three adjustments. The first reflects the elimination of the Department's system of prorating Departmental administrative costs to program areas. Eliminating this practice reduced the Health Services Cluster total funds budget by $20.5 million. The second adjustment removed $60.1 million Oregon Health Plan leverage payments from the central administrative budget and placed this expenditure limitation within the OHP payments budget. The third adjustment reduced the budgeted PERS expenditure, eliminated vacant positions, and removed funds that had been set aside for merit raises.

The adopted 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 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 added no General Fund, $4.6 million Other Funds, and $2.3 million Federal Funds.

HS – Capital Improvements

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

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget continues the 2001-03 level of funding at $1.2 million General Fund.

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

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	728,097,069	984,900,719	734,450,695	782,162,072
Other Funds	131,769,905	152,012,171	156,702,469	156,559,741
Federal Funds	1,076,752,451	1,315,346,124	1,200,846,365	1,319,004,996
Total	**1,936,619,425**	**2,452,259,014**	**2,091,999,529**	**2,257,726,809**
FTE	1,729.47	1,626.02	1,588.19	1,585.33

The FTE position count does not include the non-state employees in the Area Agencies on Aging (AAA) for which DHS provides funding. The legislatively adopted 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, Developmental 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 state-operated 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, and SSI reimbursement. In addition, the budget amounts from 1999 through the Governor's 2003-05 budget include General Fund that has been returned to DHS through the Medicaid Upper Payment Limit (MUPL) mechanism and subsequently spent as Other Funds. The 2003-05 legislatively adopted budget does not include any MUPL financing. The MUPL mechanism is, however, 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 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 significant 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 was renegotiated in the spring of 2003. The Legislature added more than $40 million of General Fund and nearly $35 million of Federal Funds expenditure limitation to the Governor's budget, which had eliminated *Staley* funding.

Within 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.

The MUPL plan required 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 was 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 transfered 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 was spent within DHS as Other Funds. The Federal Funds portion of the original payment was known as MUPL revenue and 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.

MUPL plans are used by many states and are consistent with Medicaid law. 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 Oregon's 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 nearly phase the program out. In the spring of 2003, CMS informed DHS that it was withholding or deferring $45.5 million of federal Medicaid reimbursement related to the MUPL mechanism. Since then, DHS and CMS have been negotiating a settlement. As a result of the deferral and the ongoing negotiations, the adopted budget for the 2003-05 biennium does not include Other Funds or Federal Funds limitation for a MUPL mechanism. The loss of this MUPL revenue represented a loss of $222 million from the 2001-03 revenue level.

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 2002 fifth special session. The 2003 Legislature restored many (but not all) of the programs that were reduced or eliminated. These restorations are discussed below.

Legislatively Adopted Budget

The Governor's budget, for the most part, continued the initial list of reductions compiled by the agency in response to HB 5100. The reductions primarily affected the long-term care program and related staffing in the program support area. One significant reduction eliminated the General Assistance program which is in the direct financial support program budget. The 2003-05 Governor's budget reflected 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, did 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 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 did not include the roll-up of reductions made through the allotment process in December 2002 in response to the projected statewide budget shortfall.

The 2003 Legislature's restorations to this program area were significant and are described in more detail below. In summary, the Legislature restored services to persons with developmental disabilities under a renegotiated *Staley* settlement and to seniors and persons with physical disabilities in the Medicaid long-term care system. The adopted budget includes provider rate restorations (to at least June 2003 levels) and reflects a $25 million General Fund (and associated federal Medicaid funds) enhancement to Medicaid long-term care in-home worker salaries and benefits. The budget includes better than $95 million total funds of expenditure limitation related to a Nursing Home provider tax that will increase reimbursement and reflects the use of a temporarily enhanced Medicaid match rate authorized in the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

SPDs – Long-Term Care

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	645,455,707	n/a	643,113,851	698,862,042
Other Funds	66,722,673	n/a	123,716,088	125,885,970
Federal Funds	896,972,590	n/a	1,007,750,370	1,137,515,839
Total	**1,609,150,970**	**n/a**	**1,774,580,309**	**1,962,263,851**
FTE	846.75	0.00	862.58	854.58

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.

<u>Services for Seniors and Non-developmentally Disabled Persons</u>

Medicaid Long-Term Care services for elderly and disabled clients fall into one of three major delivery categories—community-based facilities or "substitute homes", 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. Oregon Project Independence, a General Fund only long-term care program began in 1975, was a precursor to the Home and Community-Based Care waiver Oregon received under Medicaid.

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 5,036 average cases during the 2003-05 biennium. During the same time, home and community-based care caseloads increased from 3,000 cases to about 35,000 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 more than $3,500/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.

At the start of the 2001-03 biennium, SPDs had 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, typically, more likely to receive care in nursing facilities. Those at Priority Level 17 were the least impaired and were 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. Many clients have chronic health conditions such as arthritis, diabetes, cancer, stroke, hypertension, or heart disease. Because of revenue shortfalls and subsequent budget cuts, services to those in levels 12-17 were eliminated in the spring of 2003. The adopted budget restored services to persons in levels 12 and 13 for the 2003-05 biennium. The restoration must be approved by CMS. Services were not restored to persons who would be in levels 14-17.

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 and estate recoveries. As noted above, the budget amounts for 1999 through the Governor's 2003-05 budget include returned General Fund that has been used in the Medicaid Upper Payment Limit (MUPL) mechanism that is spent as Other Funds. The 2003-05 adopted budget does not include the MUPL financing 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. During the 2003 legislative session, the Department of Administrative Services, representing the Home Care Commission, negotiated wage and benefit enhancements with the union. These enhancements will begin in April 2004 and will cost $25 million General Fund ($63.9 million total funds). 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 called 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. The settlement was modified during the 2003 legislative session at a lower cost to the state.

During the 2001-03 biennium, the Department was forced to reduce long-term care expenditures significantly. These General Fund reductions 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 proposed 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.

Legislatively Adopted Budget

As noted earlier, the Governor's budget reflected the roll-up of proposed HB 5100 reductions—some of which were never implemented. For example, the Governor's budget eliminated long-term care services to clients in survival priority levels 5-17. The final HB 5100 reduction would have eliminated only survival priority levels 10-17, and the Legislature through SB 5548 provided funding to add-back levels 10 and 11 until June 30, 2003. Likewise, the Governor's budget reflected 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 provide the most important services under the Staley Settlement. The bill also restored cuts to provider reimbursement.

The 2003 Legislature made significant restorations to the SPD budget. The most important are listed below:

- $40.7 million General Fund under the renegotiated Staley Settlement ($75.5 million total funds); $6.3 million of this restoration was included as a special purpose appropriation to the Emergency Board if costs of DD services exceeded 2001-03 levels.
- $29.9 million General Fund to restore survival priority levels 10-13 ($76.9 million total funds). This preserves long-term care services for a monthly average of 4,045 cases during the 2003-05 biennium. Services to persons who would be in survival priority levels 14-17 have been eliminated.
- $41.6 million General Fund to maintain long-term care provider rates (adult foster homes, assisted living, nursing, and residential care facilities) ($106.4 million total funds). Assisted living facilities received an addition $2.2 million General Fund ($5.6 million total funds) cost of living rate adjustment, the only community-based facilities to receive such an increase.
- Funded Oregon Project Independence (OPI) at $7.3 million General Fund, about $0.2 million higher than the Governor's budget for OPI.
- Included $95.3 million total funds of expenditure limitation for a Nursing Facility provider tax. The tax is expected to generate about $50 million. $12.5 million of the tax is transferred directly to the state's General Fund (HB 2747).
- As noted above, in-home long-term care workers received enhanced wages, workers' compensation, and medical insurance benefits under the new agreement with the Home Care Commission and the union that represents the workers. The agreement was funded by the Legislature and is expected to cost $25 million General Fund ($63.9 million total funds).

In addition to the restorations, the legislatively adopted budget adjusted SPD expenditures by incorporating a "reshoot" of the Governor's budget. The reshoot modified the budget for caseload, Medicaid match rate, and Other Funds revenue forecast changes that had been made since the original Governor's budget. The caseload forecasts for long-term care assumed in the legislatively adopted budget are outlined in the chart below:

Nursing Facilities	5,036	12.5%
Substitute Homes:		
Adult Foster Homes	5,358	13.3%
Assisted Living Facilities	3,855	9.6%
Residential Care Facilities	1,964	4.9%
Specialized Living Facilities	245	0.6%
Providence Elderplace	451	1.1%
In-home Care	21,444	53.2%
Oregon Project Independence	1,931	4.8%
Total Average Long-Term Care Caseload	**40,284**	**100%**

The budget removes all Other Funds and Federal Funds expenditure limitation associated with the MUPL mechanism that had been rolled up from the 2001-03 biennium into the 2003-05 budget. The budget replaces nearly $21 million of General Fund with federal Medicaid revenue that became available when Congress passed the Jobs and Growth Tax Relief Reconciliation Act of 2003. This legislation temporarily raises the federal Medicaid match rate for five quarters beginning in April 2003. The first quarter match rate increase will allow the Department, as a whole, to replace nearly $17.3 million of General Fund. These funds will revert to the state's overall General Fund and increase the 2001-03 ending balance.

SPDs – Older Americans Act

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Federal Funds	24,535,779	n/a	26,169,351	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 (AAA), 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.

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 2002 special sessions.

Legislatively Adopted Budget

The legislatively adopted budget reflects anticipated Older Americans Act revenue of $26.2 million.

SPDs – Direct Financial Support

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,578,113	n/a	204,159	3,583,634
Other Funds	26,718,093	n/a	9,167,904	13,459,899
Federal Funds	0	n/a	0	0
Total	**30,296,206**	**n/a**	**9,372,063**	**17,043,533**
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 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 Governor's budget eliminated this program. The legislatively adopted budget restores this program, with important modifications that are described below in more detail.

- *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 was to serve severely disabled clients who need assistance with health care, transportation, housing, or long-term care before they can consider employment. This goal dovetailed 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. The Legislature eliminated funding for the Employment Initiative during the 2003 legislative session. However, it did approve a policy package in the Governor's budget using Other Funds and Federal Funds to provide policy and program support for benefits and services that help keep seniors and people with disabilities as independent as possible.
- *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 MUPL program—a mechanism that ultimately returned this General Fund to the Department as Other Funds. As noted earlier, the 2003-05 legislatively adopted budget does not contain any expenditure limitation to implement the MUPL mechanism.

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 adopted budget contains more than $12 million Other Funds revenue that is reimbursement from the federal government for those eligible for SSI benefits.

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.

The number of persons receiving SSI drives the OSIP budget. DHS expects the average OSIP caseload to be 43,426 during the 2003-05 biennium. As noted above, OSIP payments are a required part of the federal SSI program.

Legislatively Adopted Budget

The Governor's budget continued the reductions made in HB 5100—including the elimination of the General Assistance program. The Legislature, however, added $3.5 million General Fund along with $6.4 million Other Funds and $1.3 million Federal Funds expenditure limitation to restore a modified General Assistance program. Part of this funding ($1.2 million General Fund and $1.3 million Federal Funds) is used for staffing and is included in the Program Support and Central Administration budget discussed below. The program will have more stringent eligibility standards and attempt to target those who are eligible for SSI benefits rather than those eligible for SSDI benefits. The average monthly caseload is expected to be about 1,150 cases. In addition to the General Fund, the program would be financed with SSI reimbursement. The adopted budget also reflects a reduction of $0.5 million General Fund that had been used to support the Employment Initiative.

SPDs – Program Support and Central Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	79,063,249	n/a	91,132,685	79,716,396
Other Funds	38,329,139	n/a	23,818,477	17,213,872
Feder,al Funds	155,244,082	n/a	166,926,644	155,319,806
Total	**272,636,470**	**n/a**	**281,877,806**	**252,250,074**
FTE	882.72	0.00	725.61	730.75

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 730.75 FTE in the legislatively adopted budget. The budget for long-term care also includes expenditures for non-profit staff that provide DD brokerage services.

The 730.75 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 predominately from the Medicaid which is, for the most part, matched dollar for dollar with General Fund. In addition a modest amount of federal revenue comes from the Medicare ($5.6 million), Food Stamp ($3.0 million), and Older Americans Act ($1.2 million) programs.

Legislatively Adopted Budget

The legislatively adopted budget is $29.6 million total funds less than the Governor's budget. The decrease is primarily the result of eliminating the DHS practice of distributing (or prorating) the Department-Wide Support Services' (DWSS) costs across the other four program clusters. Eliminating the prorating of DWSS costs reduced the central administration budget within SPD by $34.4 million total funds ($14.2 million General Fund, $6.9 million Other Funds, and $13.3 million Federal Funds). Other reductions to this budget area included lower Public Employee Retirement System costs, merit freeze adjustments, and vacant position savings. As noted above, the restored General Assistance program included $2.5 million total funds ($1.2 million General Fund and $1.3 million Federal Funds) for staffing the program.

Insurance Pool Governing Board (IPGB) – Agency Totals

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	489,780	438,304	20,457,320	14,979,067
Other Funds	20,415,374	31,538,476	38,600,923	32,818,293
Total	**20,905,154**	**31,976,780**	**59,058,243**	**47,797,360**
Positions (FTE)	16.93	35.76	46.50	51.50

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 health insurance premium subsidies to previously uninsured, low-income families and individuals.

IPGB – Marketing, Information and Outreach

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	489,780	438,304	502,818	483,950
Other Funds	0	125,832	77,984	77,985
Total	**489,780**	**564,136**	**580,802**	**561,935**
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 86% of program expenditures in the legislatively adopted 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.

Legislatively Adopted Budget

The legislatively adopted 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 includes the 2002 fifth special session reduction of $37,024 General Fund. The budget reflects reductions in statewide government service charges and Public Employee Retirement System costs and the use of available Other Funds revenue to replace General Fund.

IPGB – Family Health Insurance Assistance Program

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	19,954,502	14,495,117
Other Funds	20,415,374	31,412,644	38,522,939	32,740,308
Total	**20,415,374**	**31,412,644**	**58,477,441**	**47,235,425**
Positions (FTE)	14.93	33.76	44.50	49.50

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. 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. The 2003 Legislative Assembly adopted legislation that allows persons in households of incomes up to 200% of the FPL to receive FHIAP premium assistance.

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.

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 most future tobacco settlement payments to securitize $150 million of bonds, this revenue source was not used for FHIAP expenditures in the Governor's budget. This revenue stream was further limited during the 2003 session when the Legislature authorized a total of $450 million in appropriation bonds secured with tobacco settlement payments. The adopted budget does use $2.1 million of tobacco settlement revenue that the agency was not able to spend during the 2001-03 biennium.

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 2003-05 legislatively adopted budget assumes federal revenue of $30.7 million--$18.3 million of CHIP revenue and $12.4 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 (DHS) and subsequently transferred to FHIAP, they are spent as Other Funds in the FHIAP budget. The budget bill for the IPGB separates the expenditure limitation for the Other Funds originating from DHS from different Other Fund revenue sources.

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, allows FHIAP state funds to be used as match for federal CHIP and Medicaid revenue. During the latter part of the 2001-03 biennium, the agency expected 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.

In April 2002, the FHIAP total caseload stood at 3,700 persons—592 of them enrolled through their employer's group health insurance coverage, and 3,108 receiving individual coverage. By December 2002, the caseload had dropped to 3,100 persons. The reduction resulted from natural attrition and a managerial decision to limit new enrollment until the OHP 2 waiver was approved in October. By the end of the 2001-03 biennium the caseload had rebounded to nearly 5,300 persons – 1,800 receiving group coverage and 3,500 receiving individual coverage. This is a 71% increase in total caseload from the December 2002 level. Despite the increase, the agency was still unable to spend $4.9 million of Tobacco Settlement revenue (along federal matching funds) during the 2001-03 biennium. The Legislative Assembly disappropriated $2.8 million of the Tobacco Settlement revenue in March 2003 in SB 5548. The remaining $2.1 million is used in the 2003-05 biennial budget in lieu of General Fund.

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. The 2003-05 budget includes 49.50 FTE. This program growth 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 is 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. Group coverage is generally less costly than individual coverage and employers contribute a substantial portion of the cost of group coverage. To reach approximately equal funding for group and individual coverage then, the total projected caseload of 15,000 at the end of the 2003-05 biennium is expected to consist of about 11,500 group enrollees (77% of the total) and 3,500 individual enrollees. In June 2003, 1,800 or about 34% of the total 5,300 person caseload was enrolled in group coverage. Thus, the goal of moving to a much higher enrollment in group coverage remains 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 possible 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? These policy questions continue to be relevant into the 2003-05 biennium.

Legislatively Adopted 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 legislatively adopted budget replaces most of the tobacco settlement funds budgeted for the 2001-03 biennium with a total of $14.5 million of General Fund during the 2003-05 biennium. The budget includes an additional $2.1 million of available tobacco settlement that was not used in the 2001-03 biennium. The agency has an Other Funds beginning balance of approximately $0.2 million. Total state funding for the FHIAP program is almost $16.6 million. Of this amount, $13.1 million is used for subsidy payments and qualifies as appropriate maintenance of effort expenditures. (The remaining $3.5 million is used to fund 49.50 FTE to administer the program.) This is clearly lower than the evenly-divided five-year maintenance of effort amount of $16.4 million per biennium mentioned above. To fulfill the maintenance of effort requirement, the Legislature will need to allocate higher levels of state resources to the FHIAP program in the future. State revenue of $16.6 million is matched with about $30.7 million of federal revenue (spent as Other Funds).

Along with using available Tobacco Settlement and Other Funds revenue in lieu of General Fund, the legislatively adopted budget reflects a $3.0 million General Fund ($10.9 million Total Funds) reduction to the Governor's budget as well as merit freeze, Attorney General, state government service charges, and Public Employee Retirement System adjustments. The $10.9 million Total Funds reduction to program expenditures reduced the expected caseload by about 2,200 average monthly cases. The budget makes use of an improved federal Medicaid match rate. This allowed the Legislative Assembly to replace $0.2 million of General Fund with Other Funds that come from the Department of Human Services.

The Legislative Assembly passed two measures important to FHIAP – House Bills 2160 and 2189. HB 2160 allows FHIAP to subsidize dental coverage when the coverage is a required part of an overall employer health benefit plan and to reimburse FHIAP enrollees or providers for the costs of age-appropriate immunizations for children when these immunizations are not covered by a health insurance plan. This latter change will make the program consistent with federal Medicaid and CHIP requirements. HB 2189 directs the agency along with the OMIP and Department of Human Services to work cooperatively to obtain additional federal matching funds for FHIAP. The federal revenue would ultimately be used to reduce an insurance carrier assessment that is used to fund the OMIP.

Long-Term Care Ombudsman – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	544,131	598,900	587,050	580,101
Other Funds	1,231,489	1,269,522	1,458,023	1,432,753
Total	**1,775,620**	**1,868,422**	**2,045,073**	**2,012,854**
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.

Legislatively Adopted Budget

The Legislature approved a budget of $2,012,854 total funds and 8.0 FTE. The adopted budget is a decrease of 1.5%, or $32,219 below the Governor's budget. The budget was adjusted to reflect the elimination of merit increases for state employees ($18,120), the elimination of inflationary adjustments ($7,189), a reduction in Attorney General rates ($726), a reduction in assessments from the Department of Administrative Services ($5,053), and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments ($1,131).

Psychiatric Security Review Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	666,640	698,724	793,770	735,777
Other Funds	2,000	2,000	2,000	2,000
Total	**668,640**	**700,724**	**795,770**	**737,777**
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 is carried 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.

Legislatively Adopted Budget

The Legislature approved a budget of $737,777 total funds, an 8% decrease from the Governor's budget, and 4.0 FTE. Technical adjustments to the budget include reductions to recognize the elimination of merit increases for state employees, the elimination of inflationary adjustments, lower Attorney General rates, reduced assessments from the Department of Administrative Service, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

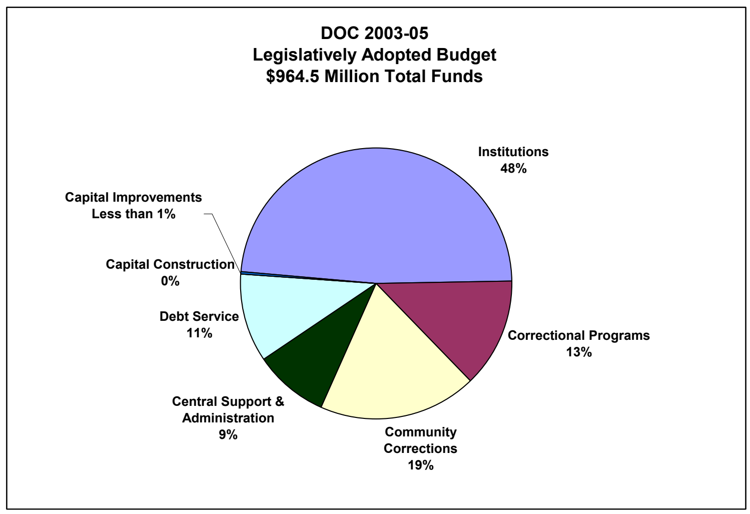
PUBLIC SAFETY

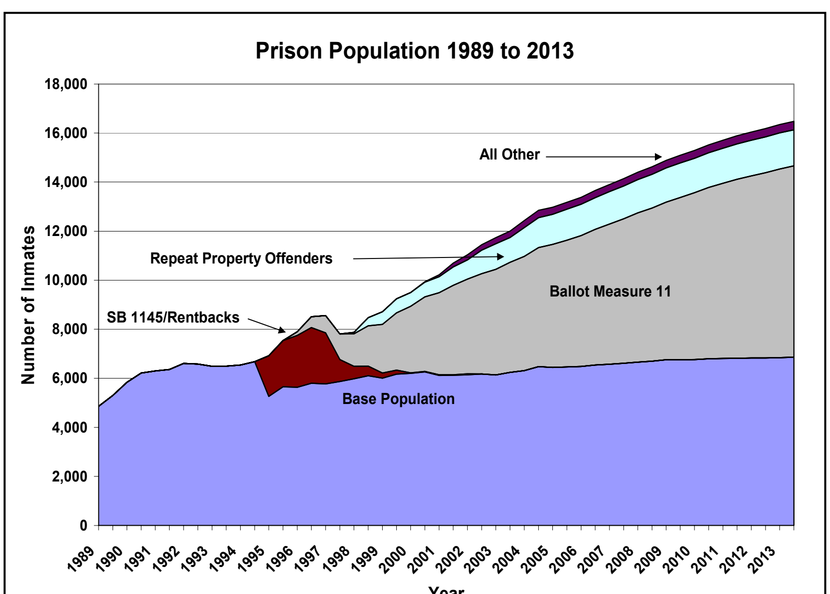
Department of Corrections (DOC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	759,770,230	785,792,311	955,550,900	814,782,009
Other Funds	300,213,785	188,580,273	32,930,017	27,887,655
Federal Funds	10,904,832	10,453,538	10,570,336	121,829,812
Total	**1,070,888,847**	**984,826,122**	**999,051,253**	**964,499,476**
FTE	3457.25	3771.81	3977.13	3891.16

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 by 1,175 inmates from 12,003 in July 2003 to 13,178 in July 2005 (October 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 $964.5 million total funds, with almost half of the budget accounting for the operation, housing, and security in the 12 prisons in the system; 13% for medical, education, mental health, substance abuse treatment, and other correctional programs; 19% for community corrections payments to counties; 11% for the debt service for prison and local jail construction; and 9% for central support and administration. In past biennia, there has been considerable capital construction included in the budget, but the 2003-05 budget does not include any new capital construction funding. There is only $2.0 million total funds (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. accompanying 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 16,500 in 2013. This expected 200% increase over the 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.

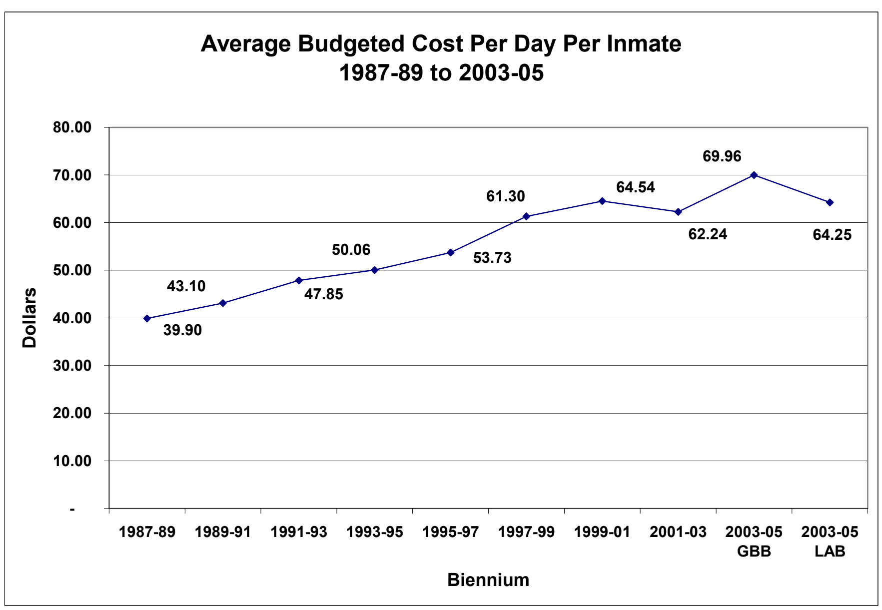
The passage of Ballot Measure 11 (BM 11) created the need to significantly change the corrections systems in Oregon and the need to increase the building program. The increases in the number of inmates due to BM 11 was not so much due to the growth in the number of offenders entering the system as much 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 of 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.

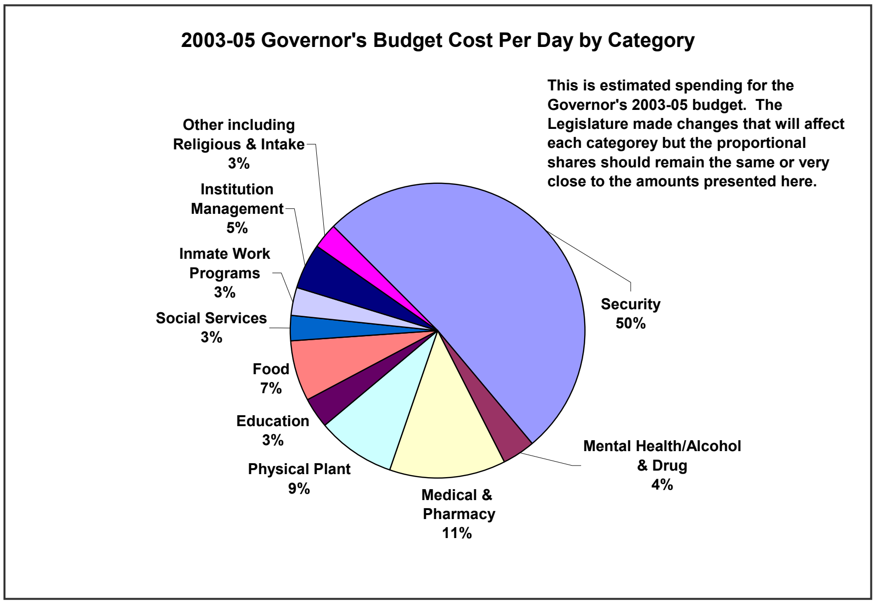
The ability of state policy makers to control the prison population growth is constrained by ballot measures passed by Oregon voters including Measure 11 (1994) which established mandatory minimum sentences for specific major crimes; Measure 4 (1988) which eliminated probation for repeat offenders of specific crimes and eliminated the use of earned time; and 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 7/03	Steps to Change Release Date
Non Measures 11 and 4 inmates whose crimes were committed prior to 12/99	1,877	Simple majority of Legislature
Measures 11 and 4 inmates whose crimes were committed before 12/99	2,874	Two thirds majority of Legislature
Measure 74 offenders whose crimes were committed after 12/99. Includes Measure 11 and 4 inmates after 12/99	6,547	Requires constitutional change

The Department of Administrative Services (DAS) prepares the Prison Population Forecast approximately every six months. The April 2003 forecast, which was 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. The October 2003 forecast shows an increase of 142 inmates by the end of the biennium over the April 2003 forecast. DOC will have to develop a plan to deal with this increase. One option is to accelerate and increase the rental of local jail beds until new beds can be built.

The average cost-per-day for an inmate in 2001-03 was $62.24 (close-of-session) and is expected to increase to $64.25 for the 2003-05 legislatively adopted budget (see attached graph). 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.





This chart shows the breakdown by spending category for the cost-per-day in the Governor's 2003-05 budget ($69.96 per day). The proportional breakdown for the 2003-05 LAB ($64.25) differs based on the changes made by the Legislature for number of positions, employee compensation, decreases in education programs, and other changes. Even with these changes the proportional breakdown should be similar to the breakdown shown in this chart.

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 9% to $785.8 million. Major General Fund reductions made during 2001-03 included:

- Construction savings at Coffee Creek and Two Rivers Correctional Facilities totaling $45.0 million which was used to offset General Fund debt service resources.
- Delayed opening of units at Snake River and Coffee Creek ($5.5 million).
- Refinanced existing COPs to benefit from lower interest rates ($8.2 million).
- Offset General Fund with increased federal grant funds ($2.9 million).
- Reduced health, education, workforce development, and other correctional programs ($8.4 million).
- Vacancy savings and delayed hirings ($22.4 million).
- Savings from consolidating functions, better food service management, and other management changes ($6.0 million).
- Health services savings from better management practices ($3.8 million).
- Reduced community corrections grants ($10.4 million).
- Other savings including administration, utilities, energy loan payments, staff reductions and county bed rental ($17.8 million).

Legislatively Adopted Budget

The Legislature adopted a Department of Corrections budget of $964.5 million total funds, a 2.1% decrease from the 2001-03 legislatively approved budget. The decrease reflects no new capital construction limitation for 2003-05. After factoring out capital construction, the 2003-05 total funds budget is 8.2% larger than the final 2001-03 budget, reflecting the anticipated prison population increasing from 12,003 for July 2003 to 13,178 for July 2005. The General Fund budget for 2003-05 is 3.7% higher than the amount in the 2001-03 legislatively approved budget. However, this comparison is misleading since the 2001-03 budget included $50 million Other Funds construction and debt service savings used to backfill General Fund and the 2003-05 budget includes a one-time use of federal funds available to all states through the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, offsetting the need for $116 million of General Fund resources.

The 2003-05 budget has sufficient resources to incarcerate the growing number of inmates, including the increase reflected in the April 2003 Prison Population Forecast. The long-term prison construction plan, which assumes over 16,000 inmates by 2010, had originally called for construction and completion of new facilities at Lakeview and Madras during 2003-05. The adopted budget relies instead on the use of over 400 new temporary beds at existing facilities (in addition to the 586 temporary beds already in use) and the rental of 200 local jail beds. To meet the continued growth, the Legislature approved the continued construction of the Lakeview facility (400 beds) for completion early in the 2005-07 biennium.

The 2003-05 legislatively approved budget restored $30.6 million General Fund to the Community Corrections Grants program, an amount sufficient to prevent counties from opting out of their SB 1145 responsibilities. Major General Fund reductions adopted by the Legislature include:

- $11.4 million in expected savings through aggressive management of vacancies and use of overtime;
- $8.9 million in correctional programs including work-based training, cognitive services, transitional services, education programs, and religious services;
- $16.9 million from elimination of inflation adjustments in the budget, including increases for energy costs, health services, and community corrections grants; and
- $10 million (and $4.3 million Other Funds) from eliminating 131 positions across the agency, but minimizing the impact on security related staff.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral, then a total of $24.6 million General Fund will be disappropriated from Community Corrections Grants ($17.8 million) and Institutions and Correctional programs ($6.8 million, combined) based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor.

DOC – Institutions

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	347,491,507	401,157,449	475,139,488	371,509,487
Other Funds	7,713,650	13,202,427	14,355,702	12,785,058
Federal Funds	10,904,832	9,700,558	9,323,316	82,420,666
Total	**366,109,989**	**424,060,434**	**498,818,506**	**466,715,211**
FTE	2675.64	2962.43	3109.17	3107.62

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	1,360
Columbia River Correctional Institution	Portland	Men's Minimum	546
Eastern Oregon Correctional Institution	Pendleton	Men's Medium	1,598
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	983
Oregon State Penitentiary	Salem	Men's Maximum	2,416
Santiam Correctional Institution	Salem	Men's Minimum	440
Shutter Creek Correctional Institution	North Bend	Men's Minimum	250
Snake River Correctional Institution	Ontario	Men's Medium	3,000
South Fork Forest Camp	Tillamook	Men's Minimum	200
Two Rivers Correctional Institution	Umatilla	Men's Medium	1,724

Revenue Sources and Relationships

The Other Funds revenues originate from a variety of sources including: 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); sale of items produced by inmate work and training programs ($1.2 million); 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 miscellaneous grants and donations ($4,940). Revenue from inmate work crews are used to fund the costs associated with the work crews while much of the remaining Other Funds revenue is used to offset General Fund resources.

The 2003-05 legislatively adopted budget assumes that only $4.2 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. This is significantly down from previous budget periods – for example, the Governor's budget assumed $9.3 million, but more recent estimates of federal revenues forced the backfill of $5.1 million of General Fund to backfill the anticipated federal revenue loss.

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.

As previously noted, DAS prepares the Prison Population Forecast approximately every six months. The April 2003 forecast, which is used in developing 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. The more recent October 2003 forecast shows another increase of 142 inmates over what is budgeted. 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 2001-03 and 2003-05. No action is authorized at this time for the Madras project but the other three are moving forward. The Lakeview facility is not scheduled to open until the fall of 2005. Minimum security capacity will remain a problem even after the Lakeview facility is opened.

Prison population is expected to exceed 16,000 by July 2012 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. DOC's working long range plan to meet this growth is to expand capacity through construction in Lakeview (400 minimum security), Madras (832 minimum and 1,240 medium), and Junction City (400 minimum) by 2013.

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 2003-05 budget. As of February, 85% of the general population cells were double occupancy or dormitory settings. There still remains the special unit beds where double occupancy cells are not feasible. All facilities except Oregon State Penitentiary (OSP) will generally be at 100%. 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. The Legislature eliminated many of these positions in the 2003-05 budget. 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for Institutions decreases by $29.76 million General Fund, or 7.4%, from the 2001-03 legislatively approved budget. The major reason for the decrease is the one-time use of federal funding through the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, offsetting the need for $78.2 million of General Fund resources. A better comparison would be a look at the total funds which demonstrates a $42.6 million increase, or 10% growth, during the same period. This increase is primarily due to the forecasted growth of 1,079 inmates between July 2003 and July 2005 as included in the April 2003 forecast as well as the roll-up costs of increases in the prison population during the 2001-03 biennium. This 2003-05 budget does not address the additional 142 inmates reflected in the October 2003 forecast.

The 2003-05 budget saves an estimated $38 million General Fund and the need for over 400 positions by relying on over 400 new emergency beds and 200 rental beds in local jails (budgeted at a cost of $70 per day), instead of opening new facilities during the 2003-05 biennium 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). Capacity will be added early in the 2003-05 biennium when the 400 bed Lakeview minimum security facility is planned to be opened.

Other major features of the 2003-05 legislatively adopted budget include:

- No funding for any General Fund inflation adjustment to recognize the potential increases in food, utilities, energy and other costs, saving $2.5 million.
- Over $23.7 million General Fund is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment.
- An alternative "boot camp" program at the Powder River facility is authorized and the budget assumes that 100 inmates will complete the program and be released a few months earlier (savings in program area of $1.5 million General Fund).
- Almost $5.1 million General Fund is required to backfill lost federal revenue through the State Criminal Alien Assistance Program.
- Over $7.4 million General Fund in savings are assumed in this budget from aggressive vacancy and other position management actions.
- General Fund savings of $2.1 million ($1.2 million Other Funds) were identified with the elimination of 31 positions including work crews, two assistant superintendents, lieutenant and sergeant positions, security manager, maintenance supervisor, safety specialist, and support staff. Security staff impact was minimized.

DOC – Community Corrections Grants

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	174,709,255	185,358,300	152,980,331	183,734,652
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 was 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 local offender population forecast, but counties may have spent it in another distribution based on local factors. Counties also contribute varying amounts to the community corrections system, 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 forecast used in the 2003-05 legislatively adopted budget (April 2003) has a higher number of offenders forecasted than the more recent October 2003 forecast as shown in the table below.

Community Corrections Forecast
Comparison of April 03 and October 03 Forecasts

	Felony Probation		Parole/Post- Prison Supervision		Local Control	
	April 03	Oct 03	April 03	Oct 03	April 03	Oct 03
July 2002*	18,588	18,588	11,162	11,162	1,660	1,660
July 2003	18,119	17,997	11,245	11,291	1,222	1,201
July 2004	18,883	18,502	11,207	11,127	1,668	1,606
July 2005	18,826	18,560	11,547	11,415	1,738	1,675
July 2006	18,916	18,639	11,826	11,662	1,785	1,720
July 2007	19,117	18,841	12,186	11,938	1,827	1,759
July 2008	19,421	19,120	12,594	12,285	1,866	1,793
July 2009	19,746	19,398	12,931	12,598	1,903	1,825
July 2010	20,007	19,662	13,234	12,886	1,935	1,856

*July 2002 data actual

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 1999-2001 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. Daily rates estimated for 2003-05 are $79.25 for the local control offenders in the jail component and $19.71 for the remaining offenders under supervision. Community corrections grants in future biennia will be increased from these rates according to the current service level provisions in statute. These funds are allocated to individual counties through a capitation model first implemented in 2001-03 based on the number of offenders per county derived from a caseload trend analysis.

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 keep pace with caseload growth and/or the amount provided does not include an increase equal to or more than the inflation increase included in the DOC legislatively adopted budget. Counties must give notice to DOC at least 180 days prior to opting out. During the 2001-03 biennium, when grants were reduced, four counties gave formal notice of “opting out” of the system. Funding was later added to avoid the potential of any counties “opting out” for the 2003-05 biennium.

The state has provided funding to build local facilities to incarcerate/treat offenders. To date, 1,319 beds have been built with state assistance with another 200 beds transferred to Clackamas County from the former DOC intake facility. Another 189 beds are in line for construction in Multnomah 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 1,200 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 resulted 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.

Legislatively Adopted Budget

The 2003-05 budget for Community Corrections Grants of $183.7 million is 1% less than the 2001-03 legislatively approved budget. This decline is the result of lower anticipated caseloads of offenders participating in the county community corrections programs. This budget assumes the caseload forecast released in April 2003. The Legislature added back $30.6 million for these grants since the Governor’s budget for 2003-05 generally rolled-up the cuts made during the 2002 special sessions. Without this add-back, it was expected that a number of counties would “opt-out” of the program. This amount was designed to prevent opt-out. This budget does not include any adjustment for inflation during 2003-05. A small increase ($192,600 General Fund) was included to cover the impact of HB 2647, which is an alternative “boot camp” model at the Powder River facility. Under this model, 100 inmates are expected to be released a few months early into the community. The more recent October 2003 forecast estimates lower caseloads in this program than what is budgeted for 2003-05.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral, then $17.8 million will be disappropriated from Community Corrections Grants based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor.

DOC – Correctional Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	87,763,672	97,822,550	125,469,724	75,928,562
Other Funds	7,462,063	8,568,376	8,903,891	8,903,891
Federal Funds	0	752,980	1,247,020	39,409,146
Total	**95,225,735**	**107,143,906**	**135,620,635**	**124,241,599**
FTE	373.34	400.42	436.58	417.96

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.

Correctional Programs Budget
1999-01 to 2003-05 Total Funds

Program Area	1999-01	2001-03 Legislatively Approved	2003-05 Legislatively Adopted
Health Services	45,609,313	46,496,323	56,780,187
Health Services Paid in Admin	(1,648,546)		
Pharmacy Services	10,526,702	14,191,519	17,298,090
Education	19,746,899	19,126,014	17,883,262
Mental Health	8,841,841	11,249,362	14,749,266
Alcohol & Drug	6,821,317	6,631,403	8,189,243
Religious Services	2,541,399	3,199,687	3,908,454
Intake & Assessment	1,906,936	2,936,998	2,713,030
Program Administration	879,874	3,312,600	2,720,067

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 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.
- Resources transferred in for education programs from the Department of Education and the Department of Community Colleges and Workforce Development ($0.5 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). Nationally, 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. 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 also 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 (60%) 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.
- 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $124.2 million total funds is $17.1 million, or 16%, greater than the 2001-03 legislatively approved budget. This growth is generally due to the growth of inmates during 2003-05 as well as the roll-up of costs for the inmate growth during 2001-03. This budget is based on the April 2003 prison population forecast. The 2003-05 General Fund budget for this program area of $75.9 million is 22.4% less than 2001-03, reflecting the one-time use of $38.2 million of federal funding through the Jobs and Growth Tax Relief Reconciliation Act to offset General Fund. Other major features or adjustments to the Correctional Programs 2003-05 budget include:

- Over $8.8 million General Fund of reductions in programs resources and staffing including GED related education, work based education, cognitive programs, and religious services. This includes elimination of 21 positions, mostly in the health services area.
- The use of temporary and rental beds instead of new facilities opening in 2003-05 saved $2.3 million General Fund and reduced the need for 32 positions. Positions are still added to meet the needs of the growing prison population.
- Over $3.5 million General Fund was saved in employee compensation decisions including those related to PERS and merit step increases.
- No adjustment for inflation for 2003-05 in this budget, saving an estimated $7.3 million General Fund. This includes any adjustment for medical-related services, which are experiencing double digit growth in private marketplace.
- Over $3.8 million General Fund in savings are assumed in this budget from aggressive vacancy and other position management actions.
- A $1.2 million increase in Federal Funds limitation for the last two years of a three year federal grant to provide assistance to violent offenders moving back into the community.

DOC – Central Support/Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	40,130,546	48,945,052	58,483,903	49,881,488
Other Funds	3,906,229	6,610,537	8,305,330	2,438,177
Total	**44,036,775**	**55,555,589**	**66,789,233**	**52,319,665**
FTE	316.82	338.44	354.00	300.58

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 legislatively adopted budget for 2003-05 out by program area.

Program Area	General Fund	Other Funds	Federal Funds	Total Funds	FTE
Business & Finance	13,970,126	2,438,174	-	16,408,300	108.58
Information Systems	27,825,909	-		27,825,909	144.50
Human Resources	8,085,423	-	-	8,085,423	47.50
Total	$ 49,881,458	$ 2,438,174	$ -	$ 52,319,632	300.58

Revenue Sources and Relationships

The $2.4 million Other Funds expended in this program is derived from the past sale of certificates of participation and is used for construction activities, infrastructure planning, the bid/solicitation process, design, construction supervision, and community development.

Budget Environment

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 General Fund 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 as no new facilities will be opened as originally planned (e.g., Madras and Lakeview). Hiring for the Lakeview facility may begin late in the 2003-05 biennium as the facility is scheduled to open in the fall of 2005. There is still ongoing turnover given the size of the agency and as temporary beds are brought on line. 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 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 statewide system while in smaller counties DOC provides a greater level of service, including desktop support. There have been reductions in this technical support staff during 2001-03 and in building the 2003-05 budget, reducing the level of service to both DOC and county programs. There are no major projects planned for 2003-05.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for Central Support and Operations is $52.3 million total funds, a 5.9% decrease from the 2001-03 legislatively approved budget. General Fund expenditures grow by 2% during the same period in part due to the net effect of centralizing telephone related costs into this program area for the entire department and spreading legal costs into individual program areas ($4.6 million General Fund). Other major features of the 2003-05 budget include:

- The phase-out of costs relating to the start-up of operations at Coffee Creek and phasing out of information system development and equipment costs made during 2001-03 (a reduction of $3.5 million General Fund).
- The roll-up of costs of facilities and units opened during the 2001-03 biennium as well as the impact of the growth in the prison population during 2003-05 ($7.4 million General Fund and 36.63 FTE).
- The net result of using emergency and rental beds instead, in lieu of proceeding with further construction of new facilities, saved $8.3 million General Fund and reduced the need for 46 positions in this budget unit.
- Over $2.4 million General Fund was saved in employee compensation decisions including those related to PERS and merit step increases.
- Almost $6.0 million General Fund and $6.2 million Other Funds was saved from the elimination of 56 positions (57.42 FTE). Eliminated positions include eight positions in Human Resources relating to training, payroll, recruitment, labor relations, and records; 35 positions in Business and Finance relating to construction oversight, warehouse, purchasing, and facilities; and 13 positions in Information Systems relating to technical support, help desk, offender information, and systems development. The Other Funds savings include COP financed limitation no longer required. These savings also include reductions of over $600,000 General Fund in Information Systems related services and supplies.
- Three positions and $424,388 Other Funds are added to manage the construction of the Lakeview minimum security facility scheduled to open early in the 2005-07 biennium.

DOC – Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	32,976,844	24,417,265	33,905,071	30,167,951
Other Funds	1,781,036	5,156,398	1,365,094	1,904,754
Total	**34,757,880**	**29,573,663**	**35,270,165**	**32,072,705**
FTE	91.45	70.52	77.38	65.00

The 2001-03 legislatively approved budget numbers do not include $2.0 million of Non-limited Other Funds expenditure limitation for issuance and finance costs relating to the refinancing of existing debt.

Program Description

Administration includes the Office of the Director, Public Affairs, Inspectors, 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 2003-05 budget includes $543,495 Other Funds for the COPs that are planned to be issued during 2003-05 for the Lakeview minimum security facility. 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 Funds revenue source is the Inmate Welfare Fund ($666,509) used for release subsidies ("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 2003-05 budget the expenditures ($1,025,611

General Fund) have been transferred to the units which require the services to increase accountability for Attorney General services. The 2001 Legislature instructed DOC to centralize telephone and telecommunications functions and the 2003-05 budget reflects this change ($1,759,161 General Fund). 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 General Fund).

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. The 2003-05 budget reduced the number of staff in the investigations unit, which will likely slow down the pace in which inspections and investigations can be completed.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $32.1 million total funds is 8.5% greater than the 2001-03 legislatively approved budget. The 2003-05 General Fund budget is $30.2 million, or almost 24%, greater than the 2001-03 final budget. This General Fund growth is almost entirely due to the increases in state-wide assessments (e.g., DAS assessments) which are centralized in this program area and to a lesser extent growth in the inspections unit due to the increase in the prison population. Other major features of the budget for this program area include:

- The 2003-05 budget reflects reorganization changes within DOC including the transfer of Attorney General costs from Administration to the program areas which incur the costs to increase accountability saved $1.0 million General Fund; centralization of telephone and telecommunication functions into Central Support and Operations saved $1.7 million General Fund; and transfer of 12 release counselor positions to the Institutions program area saved $1.8 million General Fund.
- $503,312 million General Fund was saved in employee compensation decisions including those related to PERS and merit step increases.
- Almost $1.1 million was saved from actions made by the Legislature that resulted in assessment reductions for the Department of Administrative Services, Secretary of State, and the Capitol Planning Commission.
- Elimination of 15 positions (12.38 FTE) saved $2.2 million affecting special investigations, audits, and inmate hearings.
- The decision to move forward with the Lakeview minimum security facility required the addition of $543,395 for the costs relating to the issuance and financing costs of the COPs.

DOC – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	73,249,483	24,892,423	107,471,051	101,529,597
Other Funds	106,290,915	62,740,497	0	1,855,775
Nonlimited	0		0	
Total	**179,540,398**	**87,632,920**	**107,471,051**	**103,385,372**
FTE	0.00	0.00	0.00	0.00

The 2001-03 legislatively approved budget numbers do not include $248.5 million of Non-limited Other Funds expenditure limitation for the refinancing of existing debt.

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

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 with the exception of the Lakeview facility, it unlikely this can be repeated in 2003-05. In 2001-03, previously issued COPs were refinanced ($248.5 million) to take advantage of lower interest rates. This provided General Fund savings of $8.2 million during 2001-03.

Budget Environment

Initially, 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. As prison population estimates continued to grow and the economic development benefits were discussed, the decision was made to go ahead with the Lakeview facility.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for Debt Service is $103.4 million total funds and is 15.9% greater than the amount required in 2001-03. The total funds increase reflects the roll-up of COPs issued for projects during 2001-03, including expansions at South Fork and Powder River, conversion of the former women's prison in Salem to a men's facility, and local jail construction. The General Fund increase for the same period is over 300%, reflecting the 2001-03 actions to use one-time construction savings for debt service. Approximately $62 million General Fund was required to backfill this for 2003-05. Debt service for 2003-05 for the new Lakeview facility was capitalized in the COP sale so no General Fund resources are required. There will be an estimated $2.5 million General Fund roll-up for 2005-07.

DOC – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,448,923	1,747,272	2,101,332	2,030,272
Other Funds	584,691		0	
Total	**4,033,614**	**1,747,272**	**2,101,332**	**2,030,272**
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 1999-2001, Other Funds revenue for specific projects was derived from the sale of 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 more than what has been budgeted.

The 2003 Legislature reduced the remaining available balance of capital improvement resources ($283,000 General Fund) 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 new resources are available in the 2003-05 budget, this will only further delay the long term completion of deferred maintenance needs facing DOC.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for Capital Improvements is $2.0 million total funds and is a 16.2% increase from the final budget for 2001-03. The increase restores the amount ($283,000) reduced from this budget unit late in the 2001-03 biennium to assist in balancing the statewide budget. As with the rest of the agency's budget, there is no adjustment in the budget for inflation.

DOC – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	1,452,000	0	0
Other Funds	165,061,354	92,302,038	0	0
Total	**165,061,354**	**93,754,038**	**0**	**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). The Governor's budget assumed a delay in construction of any new facilities, however, the Legislature did give approval for the Department to move forward with the Lakeview facility. The expenditure limitation for Lakeview (as well as the first stages of the Madras site) was part of the 2001-03 capital construction budget. The Prison Population Forecast demonstrates further growth for 2003-05 and beyond, exceeding 16,000 in 2012.

Legislatively Adopted Budget

There is no budget for capital construction in the 2003-05 legislatively adopted budget, reflecting the decision to delay further new construction (other than the Lakeview minimum security facility) to meet the growing prison population forecasts.

Criminal Justice Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	14,391,596	16,141,496	14,797,005	7,339,264
Other Funds	45,259	73,979	83,440	378,742
Federal Funds	1,625,686	5,043,362	4,034,449	4,060,812
Total	**16,062,541**	**21,258,449**	**18,914,894**	**11,478,818**
FTE	11.38	12.41	10.41	10.91

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 and 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 juvenile crime prevention grants to counties and tribes directed at high-risk youth. SB 555 (1999) established these grants 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 Commission's Other Funds revenue is in part 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 $21,000 per biennium, so the program for 2003-05 will depend on a beginning balance ($71,400) to support most of the program. It is anticipated the beginning balance for the 2005-07 biennium will be under $45,000, so General Fund may be required in future biennia to continue the current level of program services. Revenue could fall even further if any reductions to the public safety system result in fewer drug prosecutions, a major source of forfeitures. State forfeiture laws sunset in July 2005, so the 2005 Legislature may review oversight activities and funding.

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. The State Police will transfer $300,000 of federal Byrne grant resources for a review of public safety agencies and programs in the State.

Budget Environment

In the past, the Commission has not fully carried out its primary purpose -- to develop and maintain a state-wide 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 during 2001-03 was delayed as a result of the state budget shortfall. The 2003 Legislature removed funding for this position.

The Commission's largest program is the juvenile crime prevention grants to counties and tribal governments 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. Related funds for local juvenile department basic services and diversion are part of the budget of the Oregon Youth Authority. The prevention 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 Functional 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 believes 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 program evaluation report provided to the 2003 Joint Committee on Ways and Means found that appropriate high-risk youth are receiving services, that risk factors are being reduced, and the number and severity of crimes committed by these high-risk youth declines after they receive program services.

Total reductions of $3.7 million General Fund were made during 2001-03 in response to the state budget shortfall including a $3.2 million cut from the Juvenile Crime Prevention Grants. Approximately $1.0 million of this General Fund reduction was backfilled with available federal grant funding (SB 5548, 2003 Legislature). The remaining reductions included $50,000 to the Law Enforcement Contacts program (profiling), position related actions, and services and supplies cuts.

Legislatively Adopted Budget

The Commission's $11.5 million total funds ($7.3 million General Fund) legislatively adopted budget for 2003-05 is 46% less than the 2001-03 legislatively approved budget (55% decrease in General Fund). When compared to the 2001-03 budget adopted by the 2001 Legislature, this 2003-05 budget decreases total funds by 51.9% and General Fund by 62.9%. Most of the decline is for the juvenile crime prevention grants paid to counties, which has declined from $15.5 million total funds (including Federal Funds backfill) in 2001-03 to $5.6 million for 2003-05.

Major features of the 2003-05 budget beyond the standard employee compensation, assessment, and inflation adjustment reductions include:

- Funding for juvenile crime prevention grants is reduced by almost $10 million total funds ($9 million General Fund) to $5.6 million, or by almost 64%. Related funding for basic services to youth in the Oregon Youth Authority budget was also reduced for 2003-05, but not to the extent of the prevention grants.
- Two positions were eliminated generally reflecting the roll-up of reductions made in 2001-03. The positions were a policy analyst/research position in commission operations and an administrative support position for the juvenile crime prevention program. Related services and supplies resources are also reduced ($418,000 General Fund).

- Funding for one positions was shifted from 100% General Fund to 50% General Fund and 50% Federal Funds; and sufficient resources were provided to fully fund other positions which were under-funded in the Governor's budget.
- Sufficient resources ($8,098 General Fund) are added to the Commission's budget to meet actual costs of rent for the Commission.
- Additional Other Funds expenditure limitation was approved ($300,000) to pay for the costs of the Executive Branch review of the public safety agencies and programs. The source of funding for this review is federal Byrne grant funds from the State Police.

District Attorneys and Their Deputies – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	9,536,890	9,354,297	9,479,567	10,037,656
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 $53,004 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 70 in Multnomah County. The funding provided by the State generally represents a small share of funding for deputies for most counties.
- The state has assisted 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 has been discontinued for witness fees for 2003-05.

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	6,885,452	1,692,681	378,663	397,501	9,354,297
2003-05 Legislatively Adopted	6,961,017	1,914,840	0	1,161,799	10,037,656

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.

For the most recent year data is available (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 36% in 2002. 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. Only preliminary data is available for 2002. DA workloads are determined in large part by the number, complexity, and type of criminal arrests that occur.

Fillings	1997	1998	1999	2000	2001	2002
Misdemeanor	65,332	64,677	62,833	65,486	62,803	65,549
Felony	33,719	39,589	37,470	35,749	35,712	36,411
Total	**99,051**	**104,266**	**100,303**	**101,265**	**100,449**	**101,265**

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.

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 was expected to continue for 2003.

State funding has provided 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 2003-05 budget has no funding for witness fees. Counties that have difficulty making up for the lost state funding 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 was $162,209. This included factoring in the $194,077 increase for salaries provided to agencies during the 2002 third special session. Most of the reductions were in witness fees which have fallen by almost one half from the budget passed by the 2001 Legislature to the 2001-03 authority of $378,663. 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for District Attorneys and their Deputies is $10,037,656 million General Fund, a 7.3% increase from the 2001-03 legislatively approved budget. Administrative costs increase by $764,298 (over 200%) almost entirely due to an increase in the assessment by DAS for tort liability coverage.

Partially due to this large increase, state assistance payments to counties for witness fees were eliminated after being reduced during 2001-03. The Governor's budget had also proposed substantial reductions to the appropriation for deputy DA supplements, but the Legislature restored almost $1.3 million General Fund for this area. Final deputy supplement payments to counties are $222,000 more than the amount budgeted in 2001-03. The budget for DA salaries was adjusted downward by $499,800 for the employee compensation and PERS standard changes made to all state agencies.

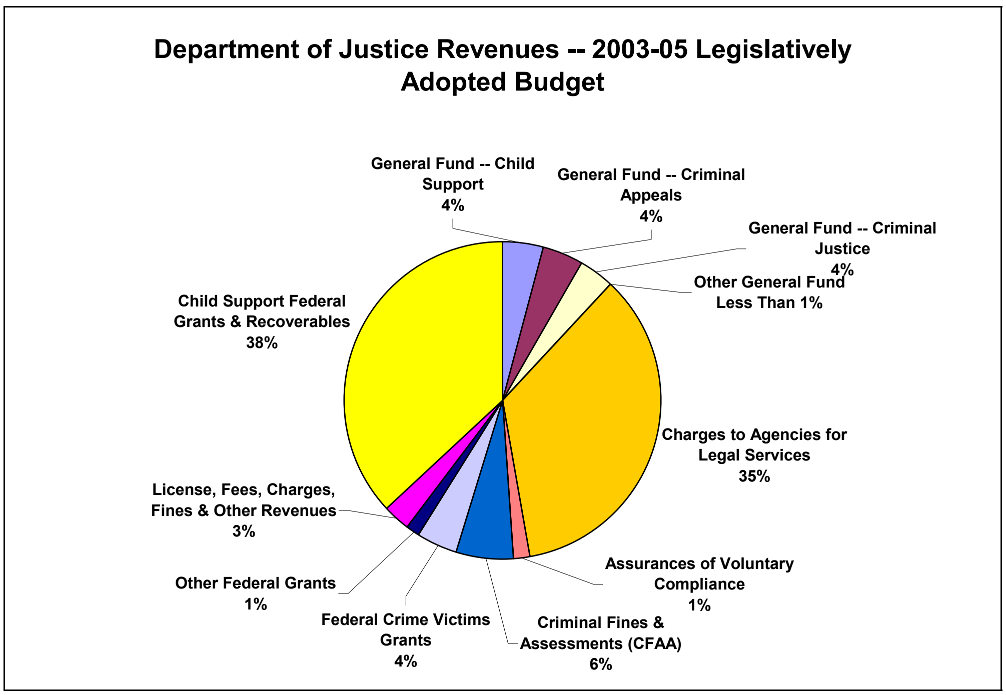
Department of Justice (DOJ) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	13,215,584	22,966,844	36,907,073	31,486,940
Other Funds	153,052,088	189,169,115	129,360,554	137,297,076
Federal Funds	12,727,345	14,464,397	98,846,278	84,678,366
Nonlimited	6,654,413	5,160,000	8,115,689	9,982,213
Total	**185,649,430**	**231,759,356**	**273,229,594**	**263,444,595**
FTE	1124.07	1179.88	1205.58	1191.09

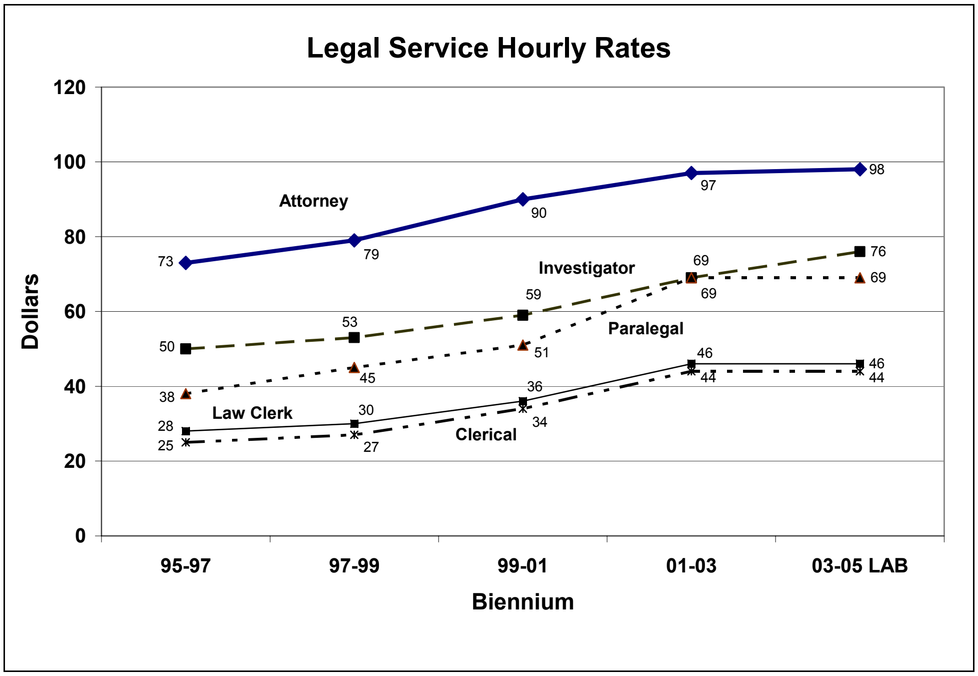
The Department of Justice (DOJ) is responsible for general legal counsel and supervision of all civil actions and legal proceedings in which the state is a party or has an interest. State statute places responsibility with DOJ for all the state's legal business that requires an attorney or legal counsel. 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. For the 2003-05 budget the General Fund accounts for 12% 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 Funds sources of revenue make up 56% of the budget and include charges to agencies for legal services, Criminal Fines and Assessments (CFAA), license and other fees, charges, and fines. Federal Funds make up 32% of the budget and include the federal share of the Child Support Enforcement and Medicaid Fraud programs, Crime Victims' grants, and marijuana eradication grants.



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 General Fund but changes made in the 2001-03 budget discontinued this practice. The rate does cover indirect costs of providing general counsel services and related administrative services.



During the 2001-03 biennium, reductions were made to DOJ's budget to meet the state-wide shortfalls needs 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 General Fund from assistance to district attorneys, criminal intelligence efforts, and the domestic violence grants in the Criminal Justice Division; and
- $478,829 from the Criminal Appeals Fund which provides resources for cases handled by the staff of the Appellate and Trial Divisions.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $263.4 million total funds grows by 13.6% from the 2001-03 legislatively approved budget. The General Fund budget grows by 37% during the same period, but 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 General Fund to DHS and sending the General Fund share and matching Federal Funds to DOJ, the Governor's budget appropriates the General Fund directly to DOJ. If this transfer had not occurred, the 2003-05 General Fund budget would be almost 10% less than the 2001-03 legislatively approved budget. Other major actions for the 2003-05 budget include:

- Reductions made during 2001-03 are "rolled-up" for 2003-05 in the Medicaid Fraud unit, Domestic Violence Abuse grants, assistance for district attorneys, criminal intelligence unit, and the Criminal Appeals Fund. The reductions are generally double the amount of the reduction for 2001-03.
- Programs funded by the Criminal Fines and Assessments (CFAA) that were cut as part of the Governor's budget are restored to roughly the same levels as 2001-03 spending. These programs 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, the Department of Transportation (ODOT) contracting and the transportation package, Non-Participating Manufacturers (Tobacco Master Settlement related), and Tobacco Tax Compliance Task Force-related activities.
- All General Fund funding for the consumer protection and financial fraud program was eliminated ($1.9 million General Fund) making the program more dependent on receipts to the consumer protection fund. Overall, the program is reduced by roughly 15%.
- The 2003-05 hourly rate for legal services charged both to state agencies and internally was reduced from $109 in the Governor's budget to $98. This saved an estimated $3 million General Fund across all state agencies and $1.8 million General Fund in DOJ.

DOJ – Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	10,618	13,126	0
Other Funds	8,467,860	13,931,042	12,132,486	11,640,731
Total	**8,467,860**	**13,941,660**	**12,145,612**	**11,640,731**
FTE	71.84	83.72	86.88	85.88

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.

Budget Environment

The Department as a whole has experienced considerable growth increasing the demands for fiscal services staff to manage legal billings and to collect amounts due the agency in a timely manner; information services staff to provide full technology support to almost 1,200 employees; operations staff providing facilities, purchasing, moving, and mail services at 28 locations around the state; and 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.

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 2003-05 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 2001 study has demonstrated the salaries of many of the attorneys in DOJ are paid at a rate lower than their counterparts in other states. The 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 was paid up to $96,075 and Lane County paid up to $94,349. The State of Washington's Attorney General paid up to $114,197 for their top step. This issue makes recruiting and retaining attorneys a significant challenge for DOJ.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $11.6 million total funds is $2.3 million, or 16.5%, less than the 2001-03 legislatively approved budget. This decrease reflects DOJ's decision to distribute state government service charges to the Divisions based on their use (reduction of $2.7 million in this Division). In previous biennia, these costs were paid out of Administration. Other changes made in the 2003-05 budget include:

- A net increase of $131,560 Other Funds 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.

- A net increase of $262,161 Other Funds 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.
- A reduction of $13,126 General Fund which represented the 2003-05 costs of an increase to the Attorney General's salary granted in 2001. This increase will be funded by assessments to the other Divisions as is the rest of his salary.
- A one-time $300,000 Other Funds increase to pay for moving and remodeling costs of the Commerce Building.

DOJ – Appellate Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	7,878,999	9,056,205	10,216,462	9,525,556
FTE	49.50	51.00	50.83	49.00

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 generated from the hourly fees billed to the state agencies involved in the appeals.

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 of the Oregon Court of Appeals and about half of the cases of 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 repeat 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 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 577 as of the end of 2002. During the same period the number of pending federal *habeas* cases has grown from 168 to 234.

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $9.5 million Other Funds is $469,351 or 5.2% greater than the 2001-03 legislatively approved budget. The majority of this growth is attributed to the net increase in employee compensation after merit and PERS adjustments, transfer of state government services charges from Administration to this budget unit ($93,722) and increases in rent ($94,236). Two vacant positions were abolished, saving $140,995 Other Funds.

DOJ – Civil Enforcement Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	614,226	1,994,307	2,470,869	401,648
Other Funds	18,407,103	19,252,301	22,363,180	22,274,321
Federal Funds	955,367	1,726,012	1,845,874	1,753,600
Total	**19,976,696**	**22,972,620**	**26,679,923**	**24,429,569**
FTE	115.06	132.80	138.33	129.44

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 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.
- 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.
- 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. The General Fund resources were removed for the 2003-05 biennium. 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 1999-2001 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. 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.

The *Financial Fraud/Consumer Protection* section anticipates a steady increase in its workload, including the growing field of Internet fraud. Consumer hotline calls increased from an estimated 61,000 in 1999 to over 75,000 calls for 2002. Part of this expansion can be explained by more hours when the Hotline was operating. The number of written complaints is a better workload measure which for 2001 was 14,001 and grew to 17,477 for 2002. Complaints received via the Internet increased over 100 percent since 1999. In 1999, the processing time for a complaint was one week, growing to an average of one month in 2001 and two months in 2002.

The number of registered *charitable organizations* has increased from about 3,000 in the early 1990s to 12,595 as of September 2003. 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 532, are also monitored including screen applicants for licenses and insuring compliance with rule.

The 2001-03 budget shortfalls had relatively small impact on this Division with the Medicaid Fraud unit losing less than $10,000 from its General Fund budget.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $24.4 million total funds is $1.4 million, or 6.1%, greater than the 2001-03 legislatively approved budget. The growth is primarily driven by the net increase in employee compensation after the merit and PERS adjustments as well as the transfer of the state government service charges from Administration to the individual divisions ($373,082 Other Funds). The General Fund budget is reduced by $1.6 million, or by almost 80%, for the same period because of the decision to remove all of the General Fund from Consumer Protection and Financial Fraud program. Major features of the 2003-05 budget include:

- 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 2003-05 budget assumes that settlement funds will fund the three new positions ($689,182).
- As a result of the review of vacant positions, six positions (3.39 FTE) were abolished, saving $223,833 Other Funds.
- All remaining General Fund resources ($1.9 million General Fund) were removed from the Consumer Protection and Financial Fraud program and 3 positions (3.0 FTE) were abolished. Other Funds resources from the consumer protection fund ($1.7 million) were used to backfill a portion of the lost General Fund, but there is still an overall reduction in the program's capacity of roughly 15%. The ending balance of the Consumer Protection Fund is also decreased as a result of this decision so significant General Fund resources will likely be required to continue the program at the same level for 2005-07.

DOJ – Criminal Justice Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,729,862	9,926,919	10,836,903	9,472,657
Other Funds	7,972,452	21,199,649	18,452,845	20,567,277
Federal Funds	11,771,978	12,738,385	11,820,697	11,672,658
Nonlimited	6,654,413	5,160,000	8,115,689	9,982,213
Total	**32,128,705**	**49,024,953**	**49,226,134**	**51,694,805**
FTE	66.50	81.60	85.92	87.30

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. 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 and to investigate allegations of corruption or malfeasance by public officials in Oregon. This section also hosts the Western States Information Network for Oregon which shares intelligence information amoung five western states; participates with the Oregon State Police and Department of Revenue in the Tobacco Tax Compliance Task Force; and participates as part of the federal/state/local High Intensity Drug Trafficking Areas (HIDTA) program in seven counties.
- The ***Crime Victims' Assistance*** section is responsible for administering 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. The State *Crime Victim Grant program* makes 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 ($15.7 million), punitive damages and restitution, and federal grant funds ($12.4 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 ($700,572 Other Funds). 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 1999-2001, 370 in 2001-03, and expecting to grow to 390 for 2003-05. 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 reviewed the Crime Victims' Compensation Program in light of the events of September 11, 2001 and introduced legislation which passed 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 long-term uncertainty of the uses 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. The 2003 Legislature increased some fines and assessments to fill a funding gap for 2003-05. In future biennia, the new DPSST facility will require both the debt service and greater staffing needs. These are higher statutory priorities for CFAA revenue than the 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 DAA will likely increase. The number of DAA cases opened has roughly doubled between 1999-2001 and 2001-03. The Department has temporarily handled the additional workload with existing staff through overtime (6% growth in month hours between 1999-2001 and 2001-03) and slower response time. If the workload continues to grow, additional legal, investigative, and support staff may be needed.

During the 2001-03 biennium, this Division initially was provided resources (4 positions and $480,000) to staff the Tobacco Tax Compliance Task Force along with the Department of Revenue and Oregon State Police. Over $600,000 General Fund was reduced from the entire Division's budget as a result of the state-wide budget shortfalls.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $51.7 million total funds reflects an increase of $2.7 million, or 5.5%, over the 2001-03 legislatively approved budget. The General Fund portion of this budget decreases by $454,262, or by 4.6% for the same period. Major features in this budget include:

- Reductions made during 2001-03 are "rolled-up" – $683,214 in the District Attorney Assistance program and the Criminal Intelligence unit, and $186,985 in the Domestic Violence and Sexual Abuse grant program.
- Losses to programs funded by CFAA revenues during the budget development and the Governor's budget were restored to levels comparable to 2001-03.
- As a result of the review of vacant positions, one positon (0.69 FTE) was abolished, saving $78,011 Federal Funds.
- The funding for the positions and other costs for the Tobacco Tax compliance Task Force was changed, resulting in a reduction of $707,068 General Fund and an equal increase in Other Funds. The Other Funds will be received through an interagency agreement with the Department of Revenue. An additional five positions (4.38 FTE and $964,581 Other Funds) were approved to increase state tobacco revenues. Positions were also added in the Oregon State Police and Department of Revenue.

DOJ – General Counsel Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	25,782,355	31,274,859	34,835,345	33,324,674
FTE	162.55	166.75	166.55	166.24

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.

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 administrative 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; in July 2002, 23,388; and, in September 2003, 22,804.

Actual demand for General Counsel services depend on the needs of state agencies. With the reduction or elimination of some state services, the demand could drop. On the other hand, reduction or elimination of services has led 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 state agencies legal services of which some have been implemented. Examples include expecting agencies and DOJ to work together in using more templates and standardized forms for contracts and procurement reducing the need for legal review of all components of every contract; exploring further class exemptions from legal sufficiency review of contracts; evaluating whether agencies could benefit from the development of lay representatives; working closely with agencies to minimize legal costs and establish procedures to coordinate requests for legal services within agencies; and exploring a bidding process for minimizing outside legal counsel contracts.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $33.3 million total funds is $2.0 million, or 6.6%, greater than the 2001-03 legislatively approved budget. Growth in this budget is almost entirely due to the net increase in employee compensation after the merit and PERS adjustments, and the distribution of state government service charges from Administration to indivual divisions. Other major features of this budget include:

- A position ($101,744 Other Funds) is transferred from General Counsel to Administration as part of the DOJ overall information systems resource planning.
- A paralegal position is added to provide access to legal research funded by reductions elsewhere in the Division's budget.
- An attorney positon ($302,776 Other Funds) is added to meet the anticipated demand for contract related services resulting from the new Transportation Initiative (HB 2041). DOJ may return to the Emergency Board if additional positions are required to meet this demand.

DOJ – Trial Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	10,803,096	12,414,111	14,688,240	13,845,293
FTE	74.88	76.21	80.71	80.37

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.

Budget Environment

The largest unit in this Division is the Corrections Litigation Unit. It opened 608 post-conviction and *habeas* cases in 2002 and, as of July 2003, there were over 900 cases pending. 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 face. The significant reductions in other areas of state government has increased the workload of this Division as clients, advocates, providers, and others turn to the legal system to offset their loss of service or compensation.

The number of condemnation related cases has almost doubled between June 2001 and June 2002. Increased funding for more transportation construction will continue this growth.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $13.8 million total funds is $1.4 millio,n or 11.5%, greater than the 2001-03 legislatively approved budget. Most of the budget growth is due to net increases in employee compensation after the merit and PERS adjustments, state government service charges transferred from Admininstration to the individual divisions ($121,308 Other Funds) and rent increases ($97,528 Other Funds). Four new positions (3.66 FTE) are added ($586,405 Other Funds) to address the growing expected workload in ODOT construction projects and condemnation actions (paid by increased billings to ODOT).

DOJ – Child Support Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	11,507,814	10,741,042
Other Funds	73,740,223	81,409,973	15,823,493	25,356,420
Federal Funds	0	0	85,179,707	71,252,108
Total	**73,740,223**	**81,409,973**	**112,511,014**	**107,349,570**
FTE	583.74	587.80	596.36	592.86

Program Description

This Division focuses 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 if requesting, receiving, or have received, public assistance from the Department of Human Services (DHS); if the child is in the care of DHS's child welfare program or the Oregon Youth Authority (OYA); or if the case has been referred by another state. The 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 contract with DOJ to handle all their child support cases.

Revenue Sources and Relationships

Federal funds generally support 66% of the program costs; and state General Fund, local funds, and recoverables pay the remaining 34%. 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 2003-05 budget reflects the transfer of all responsibility and funding for child support functions from DHS to DOJ. DOJ will directly receive General Fund and Federal Funds instead of a transfer from DHS (as Other Funds).

Budget Environment

The program serves roughly 250,000 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 1999-2001 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 further increasing the pass-through. If this happens, the program could require additional state General Fund in the future. Falling Temporary Assistance to Needy Families (TANF) caseloads have also contributed to the decrease in recoveries, but recently 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 included in the 2003-05 budget. There will 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $107.3 million total funds is $25.9 million, or 31.7%, greater than the 2001-03 legislatively approved budget. This increase is primarily due to the transfer of the program from DHS to DOJ and net increases in employee compensation after the merit and PERS adjustments.

Prior to this biennium, the General Fund and Federal Funds resources were in the DHS budget and an interagency agreement between DHS and DOJ transfered funding for the DOJ portion of the program as Other Funds. In the 2003-05 budget, before any adjustments for employee compensation and inflation, there are transfer-related increases in General Fund ($11.5 million) and Federal Funds ($83.7 million), with a decrease in Other Funds limitation ($73.6 million). The net difference of $21.6 million between the increase in General Fund and Federal Funds and the decrease in Other Funds is due to the transfer of costs that were directly paid by DHS. The costs include 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 2003-05 budget include:

- Nineteen positions (18.25 FTE and $1.9 million total funds) that have been limited duration for the past three biennia are made permanent.
- Five positions (2.50 FTE and $286,007 total funds) are established for anticipated caseload growth during 2003-05.
- A new forecast of recoveries and incentive payments, developed at the request of the Legislature, yielded savings of $545,435 General Fund and an equal increase in Other Funds limitation.

- Seven positions (6.50 FTE and $1,042,811 total funds) are established for the anticipated increased workload due to new federal requirements relating to health care coverage of children and the responsibility of non-custodial parents (HB 2095). Greater workload is due in part to notification of employers of the change.
- As a result of the review of vacant positions, 11 positions (10.0 FTE) were abolished, saving $1.2 million total funds.
- A shift in expenditure classification for federal incentive payments is made to better reflect the accounting of these funds. There is a $10.2 million Other Funds increase and corresponding Federal Funds decrease.

DOJ – Criminal Appeals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	6,871,496	11,035,000	12,078,361	10,871,593
Other Funds	0	754,896	848,503	762,804
Total	**6,871,496**	**11,789,896**	**12,926,864**	**11,634,397**
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. Work on ballot measure titles are also billed to this fund. 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 General Fund appropriation. In 1997-99 and 1999-2001, 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 General Fund 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.
- 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 Defense Services Commission (PDSC) programs, there may be fewer appeals at the state level. 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 for which DOJ also defends the state's interest. 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 $552,000 General Fund due to the budget shortfalls. This led to case processing delays.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $11.6 million total funds is 1.3% less than the 2001-03 legislatively approved budget ($10.9 million General Fund and decrease of 1.5%). Major features of this budget include:

- The budget was adjusted to reflect the legislatively approved increase of $1 per hour in the rate DOJ charges for attorney services. The Govenor's budget proposed an increase of $12 (from $97 per hour to $109), but legislative action reduced the rate to $98 for 2003-05.

- The budget reflects $1.1 million in reductions which are "rolled-up" from the cuts made during 2001-03. The impact of this cut is that DOJ will have to prioritize the cases that it appeals and the current backlog of pending cases will likely increase.

Military Department (Military) – Agency Totals

	1999-2001 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	12,699,550	13,254,109	13,017,427	13,168,552
Other Funds	8,042,250	10,302,959	5,731,700	7,640,166
Federal Funds	42,699,014	61,101,710	52,435,118	84,988,963
Total	**63,440,814**	**84,658,778**	**71,184,245**	**105,797,681**
FTE	408.86	375.15	360.58	377.58

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 $61 to $85 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 reduced 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 reduced an additional $496,626 General Fund from the agency's budget since the January 2003 tax measure was not approved by voters. This resulted 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.

Legislatively Adopted Budget

The Legislature approved a budget of $13.2 million General Fund, $105.8 million total funds, a 48.6% increase in the Governor's budget, and 418 positions (377.58 FTE). Technical adjustments include the elimination of step increases and inflation adjustments; reductions to Department of Justice charges, Department of Administrative Services assessments, PERS employer rate assessments, and Secretary of State assessments based on reductions in the budgets for those agencies; and the elimination of two vacant positions. Specific budget details are discussed under each program unit.

Military – Administration

	1999-2001 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	4,366,763	3,552,268	3,243,666	3,155,919
Other Funds	653,415	1,181,273	1,131,818	1,008,354
Total	**5,020,178**	**4,733,541**	**4,375,484**	**4,164,273**
FTE	29.75	26.01	22.75	21.75

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 personnel, respectively, 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.

Legislatively Adopted Budget

The Legislature approved a budget of $3.2 million General Fund, $4.2 million total funds, and 22 positions (21.75 FTE), a 4.8% decrease in the Governor's budget. Technical adjustments reduced the budget by eliminating step increases and inflation on services and supplies; abolishing one vacant position; and reducing funding for Attorney General charges, Department of Administrative Services assessments, PERS employer rate assessments, and Secretary of State assessments. The following policy packages were approved:

- A program reduction, eliminating a Human Resource Analyst 1 position (1.0 FTE) at $34,594 General Fund and $80,724 Other Funds, and shifting a Program Representative 1 (1.0 FTE) from the General Fund ($104,644) to Other Funds and reduced services and supplies ($154,548).
- Elimination of funding for the Tuition Assistance program as a result of actions taken in the 2002 fifth special session, retaining $96,445 General Fund to continue support to National Guard members currently in the program and allow them to complete their degree requirements.

Military – Operations

	1999-2001 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,644,792	8,936,777	9,773,761	9,382,262
Other Funds	1,368,281	2,595,892	2,897,920	2,789,092
Federal Funds	34,288,925	47,565,578	45,401,653	44,277,905
Total	**43,301,998**	**50,098,247**	**58,073,334**	**56,449,259**
FTE	329.11	297.14	302.83	309.83

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*** (108.48 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*** (9.0 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*** (50.95 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 Custodial Services*** (1.0 FTE). This program provides custodial services at the Portland Air National Guard Base.
- ***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*** (60.0 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*** (1.4 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.
- ***Family Support Services*** (2.0 FTE). This program provides family readiness and support assistance to the Air National Guard members and their families in Klamath Falls and Portland. Services focus on family and personal readiness, economic viability, and overall satisfaction with life in the Air National Guard by members and their families. The program is 100% federally funded.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $9.4 million General Fund, $56.4 million total funds and 350 positions (309.83 FTE), a 2.8% decrease in the Governor's budget. The Legislature approved the addition of six federally-funded Communications Technician positions for the Equipment Refurbishment program; increased an Accounting Technician 3 from 0.50 FTE to 1.0 FTE; decreased an Administrative Specialist 1 from 1.0 FTE to 0.50 FTE; eliminated step increases and inflation on services and supplies and capital outlay; and reduced funding for Attorney General charges, Department of Administrative Services assessments, PERS employer rate assessments, and Secretary of State assessments. The following policy packages were approved:

- An addition of $598,298 Federal Funds for five facilities planning and environmental management positions at Army Guard facilities, including one Planner 3, one Facility Engineer 1, and three Natural Resource Specialist 3 positions. The positions will address encroachment issues at agency facilities throughout the state and implement a federally required environmental management program.

- An increase of $2.6 million 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 a reduction of $2 million in Federal Funds from Army National Guard Telecommunications expenses that will be paid directly by the Department of Defense.
- An addition of $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.
- An addition of $188,382 Federal Funds for two Volunteer Program Management positions (2.0 FTE) to staff the federally-funded Family Readiness and Support Services program at the Portland Air Base and Kingsley Air Field in Klamath Falls.

Military – Community Support

	1999-2001 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	687,988	765,064	0	630,371
Other Funds	2,465,547	2,550,897	1,701,962	1,442,719
Federal Funds	4,359,582	9,830,132	3,808,465	4,325,908
Total	**7,513,117**	**13,146,093**	**5,510,427**	**6,398,998**
FTE	50.00	52.00	35.00	46.00

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.

Legislatively Adopted Budget

The Legislature approved a budget of $630,371 General funds , $6.4 million total funds and 47 positions (46.0 FTE), a 16.1% increase from the Governor's budget. The budget includes technical adjustments for the elimination of step increases and inflation on services and supplies; abolishing one vacant position; and reducing funding for Attorney General charges, Department of Administrative Services assessments, PERS employer rate assessments, and Secretary of State assessments.

The Legislature approved an increase of $633,922 General Fund, a decrease of $119,231 Other Funds, and an increase of $785,055 Federal Funds to fully fund the Youth Challenge Program. This level of funding includes the addition of 12 positions (12.0 FTE), the reclassification of two positions, and the shifting of funding of four positions from 40% Other Funds and 60% Federal Funds to 40% General Fund and 60% Federal Funds. 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.

Military – Capital Improvement/Major Construction

	1999-2001 Actual	2003-05 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7	0	0	0
Other Funds	3,555,007	1,424,000	0	2,400,001
Federal Funds	4,050,507	3,706,000	3,225,000	36,385,150
Total	**7,605,521**	**5,130,000**	**3,225,000**	**38,785,151**
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.

Legislatively Adopted Budget

The Legislature approved $38.8 million total funds budget. The following projects were approved:

- An increase of $3.2 million Federal Funds to construct an infantry platoon battle course and qualification training range at the Boardman Bombing Range and to replace a dining facility at Camp Rilea. These projects are entirely federally funded.
- An increase of $2.4 million Other Funds and $33 million Federal Funds for the Lane County Armed Forces Reserve Center.
- An increase in three 1995 Capital Construction expenditure limitations by $1.72 million Other Funds and $18.0 million Federal Funds for construction of an operational maintenance shop and an Armed Forces Reserve Center in Springfield. The 1995 Legislature approved a total of $16 million in Lottery Funds, Other Funds, and Federal Funds to construct these projects in Eugene. The total project cost is currently projected at $35.8 million, including $2 million in costs already incurred that are primarily related to the original site. Also approved was the sale of the 30th Avenue property in Eugene where the facilities were originally sited. According to ORS 396.515 (4), legislative approval is necessary prior to the sale of real property.

Board of Parole and Post-Prison Supervision – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,883,296	3,000,780	3,474,155	3,237,956
Other Funds	3,003	3,637	3,764	9,294
Total	**2,886,299**	**3,004,417**	**3,477,919**	**3,247,250**
FTE	16.00	15.00	14.75	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 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.

There were several reductions to the Board's 2001-03 budget during the series of 2002 special sessions. During the second special session, 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.

Legislatively Adopted Budget

The legislatively adopted budget for 2003-05 of $3,237,956 General Fund is 7.9% greater than the 2001-03 legislatively approved budget. This budget restores the majority of the 2001-03 reductions including the roll-up value of the cuts resulting from the failed tax measure in January 2003 (Ballot Measure 28). Without this restoration, the Board would have had to eliminate four positions. The 2003-05 budget still includes 2002 reductions of two positions (1.25 FTE) and decreases in resources for Attorney General charges. The assumption is that the changes from the implementation of HB 2348 (noted above) will reduce the need for legal services. Standard reductions were made totaling $149,058 General Fund for employee compensation issues, Attorney General charges, DAS assessments, and inflation adjustments. The Board's Other Funds ending balances were reviewed and existing Other Fund resources were used to backfill $5,530 of General Fund reductions.

Department of State Police (OSP) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	167,149,931	172,019,033	166,920,318	159,025,757
Lottery Funds	3,303,064	4,857,534	5,032,023	5,566,608
Other Funds	59,246,074	123,389,747	127,477,726	129,255,880
Federal Funds	46,367,372	70,043,758	70,424,910	91,709,576
Nonlimited	87,403,450	21,359,947	21,359,947	21,359,947
Total	**363,469,891**	**391,670,019**	**391,214,924**	**406,917,768**
FTE	1,468.41	1,361.06	1,081.97	1,165.21

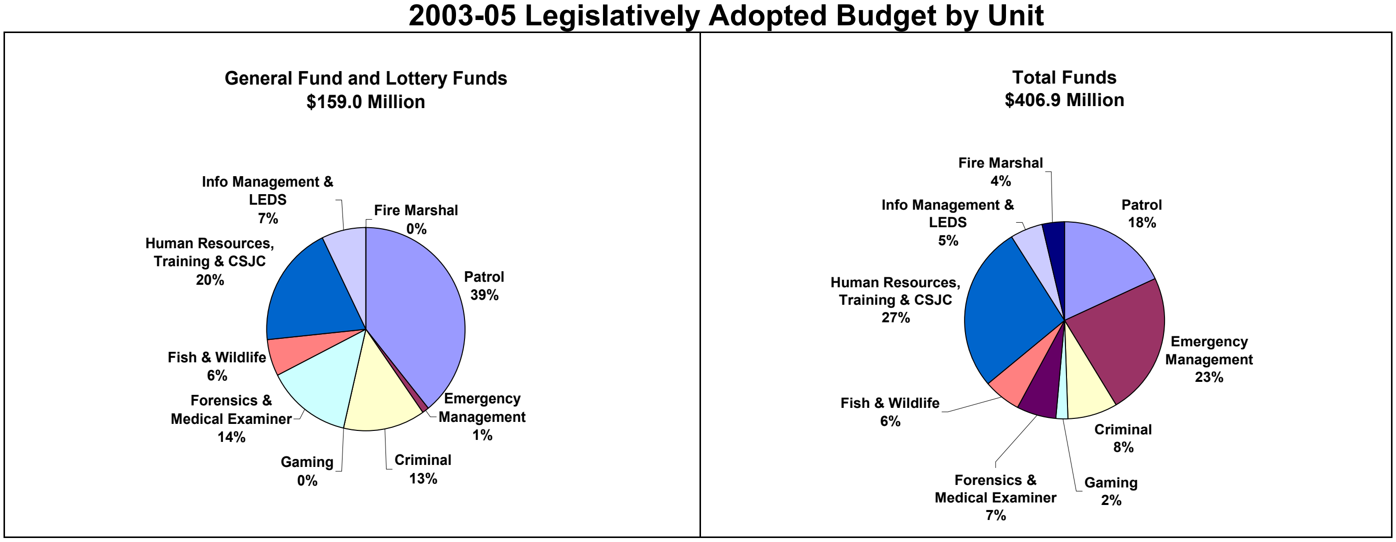
Historic functions of the Oregon State Police (OSP) include patrol, criminal investigation, forensic lab services, and fish and wildlife law enforcement. Responsibilities expanded when the 1993 Legislature approved merger of the Boxing and Wrestling Commission, Office of Emergency Management, Law Enforcement Data System (LEDS), and State Fire Marshal. The 1995 Legislature further expanded agency responsibilities further by adding two more functions, the Medical Examiner and Criminal Justice Services Division.

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, which includes the Forensics Services, Gaming, and Criminal Investigation divisions, and the Office of Public Safety and Security.
- Central Operations Command, which includes the Patrol and Fish/Wildlife divisions, the management and support of the field structure, and the two dispatch command centers (Salem and Central Point).
- 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 above units, there is the Superintendent's Office and the agency's administrative and support services. For budget purposes, the Department has nine units which are outlined in the following charts.

2003-05 Legislatively Adopted 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 are 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.
- 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 $9.9 million, or 5.4%, between the budget passed by the 2001 Legislature and the final legislatively approved budget. Funding for over 330 positions was eliminated due to specified reductions and almost another 60 positions were not funded due to the December 2002 forecast shortfall. Major reductions included:

- ***Second special session (February-March 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.
- ***Third special session (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. Cuts eliminated staff in training, aviation, public information, and labor relations, and reduced capital outlay purchases. OSP also delayed hiring and kept many positions vacant across the Department to fill the gap.
- ***Fifth special session (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 positions; and 87 positions in field support, financial services, personnel, training information systems support, LEDS, and training. Funding for a portion of the positions in Patrol (40 positions) and Forensics (40 positions) was added back during the "sixth special session" in March 2003 for the remainder of the 2001-03 biennium.

Legislatively Adopted Budget

The legislatively adopted budget for 2003-05 represents a $13.0 million General Fund reduction, or 7.6%, from the final 2001-03 legislatively approved budget. The total funds budget increases by $5.2 million for the same period, but primarily due to an increase in Homeland Security federal funding received by the agency and passed on to local governments. The 2003-05 budget generally reflects the "roll-up" of the 2001-03 reductions, with the exception of the Forensics program where 58 of the original 93 eliminated positions were restored. The agency-wide decrease is demonstrated by the loss of almost 300 positions (not including seasonal and limited duration) during that period as summarized in the following table (reflects 2001-03 after factoring reorganization changes):

Change in Funded Positions for State Police 2001-03 to 2003-05

Does Not Include Seasonal and Limited Duration

	Patrol	Fish & Wildlife	Criminal Investigation	Forensics & Medical Examiner	Gaming	Info Mgmt & LEDS	Human Resources, CJC, & Training	Fire Marshal	Emergency Mgmt	Total
Legislatively Adopted 2001-03 Budget after Reorganization	447	120	157	149	42	159	236	82	34	1,426
Legislative Approved Budget as of March 2003	333	108	147	96	42	94	166	73	32	1,091
Governor's 2003-05 Budget	333	108	142	61	42	94	166	73	32	1,051
2003-05 Legislatively Adopted Budget	333	120	155	113	42	107	166	77	37	1,150

Other major features of the budget adopted by the 2003 Legislature include:

- no restoration of any patrol trooper positions that were reduced during 2001-03 (the number of Patrol sworn officers is 329 compared to over 500 in the early 1990s);
- backfilling $2.4 million of General Fund in the Patrol Division with federal truck safety funding, which effectively reduces general purpose patrol by another 13 positions;
- restoring only a small number of the positions lost during the 2001-03 biennium in basic criminal investigative resources to assist local major crime and drug teams, identification services, Law Enforcement Data Systems (LEDS), information management, wireless communications, business services, personnel, training, and support for the field system;
- restoring the five positions cut during 2001-03 for the Tobacco Tax Compliance Task Force and adding another six positions for this function; and
- providing the necessary debt service and financing costs ($627,500 General Fund) for the Certificates of Participation issued for $3.6 million of equipment at the new forensics lab and medical examiner facility scheduled to open during 2003-05.

OSP – Patrol Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	70,447,150	71,675,093	74,140,137	64,651,158
Other Funds	8,257,171	8,418,193	7,324,460	8,565,610
Federal Funds	2,118,298	1,460,250	333,114	321,427
Total	**80,822,619**	**81,553,536**	**81,797,711**	**73,538,195**
FTE	491.76	455.36	350.67	342.67

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.

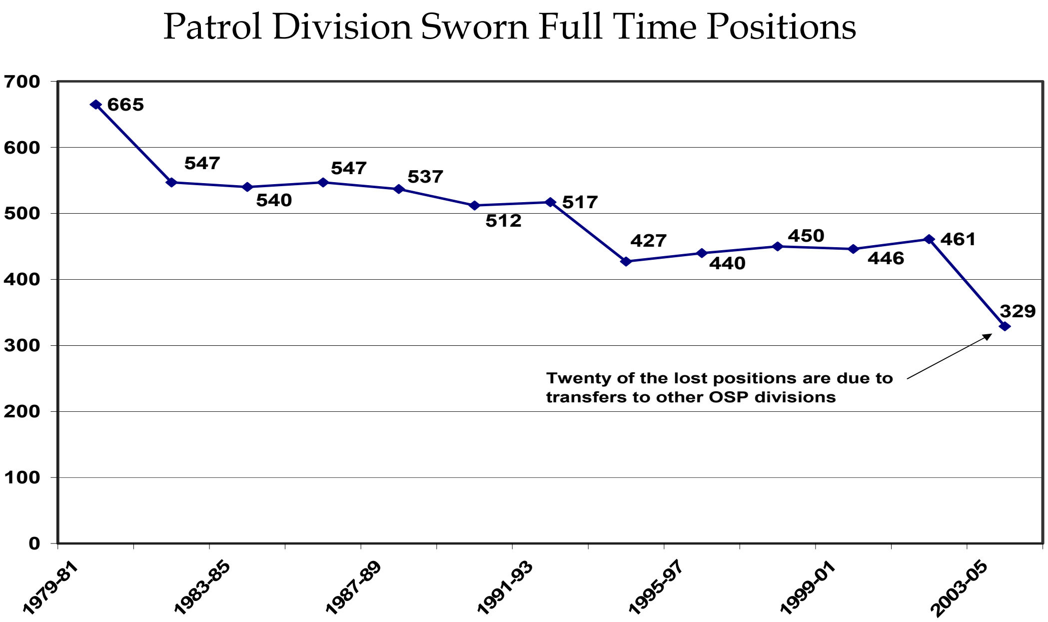
Revenue Sources and Relationships

Other Funds revenues are received from the Department of Transportation for a variety of purposes (totaling $6.5 million Other Funds) including traffic safety patrols in highway construction zones, commercial truck inspections, snow-park enforcement, and DMV vehicle identification (VIN) inspections. There has been an increase of $2.4 million in ODOT funds for 2003-05 relating to commercial truck 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 (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 2003-05 budget – a contract with the Department of Administrative Services (DAS) for Capitol Mall Security and a contract with the Legislative Administration Committee for Legislative/Capitol Security.

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.

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 2002 level of 48,282. The number of persons killed in accidents also declined from 1990 to 1999 (from 579 to 413); and then increased to 487 in 2001 with a reduction to 436 in 2002. 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.



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.

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 following major General Fund reductions:

- 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), and eliminated the use of retired troopers for security during the legislative session.

Legislatively Adopted Budget

The 2003-05 legislatively adopted General Fund budget for Patrol Services Division is $7 million, or 9.8%, less than the 2001-03 legislatively approved budget ($8.1 million total funds decrease, or 10%). 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 in response to the December 2002 revenue forecast and the "buy back" of 40 patrol trooper positions out of the 105 positions cut by HB 5100 ($5.5 million General Fund). Other components of the 2003-05 budget include:

- Over $4.5 million General Fund is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment.
- The cadet program is eliminated, reducing the number of positions by 32 (8.0 FTE) and saving $156,321 General Fund. The cadet positions provided assistance, often seasonal, for security at state parks and other

areas. Other Fund revenues will be used for temporary employees (e.g., retired troopers) to perform functions that cadets had previously provided.

- The budget for the Division's services and supplies was reduced by $1.7 million General Fund to match the corresponding reduction of positions in the budget.
- Additional commercial truck safety and inspection fund resources from ODOT backfilled $2.4 million General Fund. Since these funds must be used for truck safety-related activities, the impact of this backfill is to reduce the resources for general Patrol Services functions by the equivalent of 11 troopers and 2 sergeant positions.
- Positions previously financed through the federal COPS program were reduced (3.45 FTE) because of the loss of $1.2 million in federal funding.

OSP – Criminal Investigation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	19,555,071	20,863,959	23,646,238	22,077,649
Other Funds	3,862,130	2,583,478	4,585,434	6,069,416
Federal Funds	2,353,544	4,491,183	4,806,630	4,764,284
Total	**25,770,745**	**27,938,620**	**33,038,302**	**32,911,349**
FTE	152.16	141.17	146.61	157.86

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 over $2.0 million from 2001-03 due in part to a transfer of responsibility for Capitol Mall and Legislative Security from the Patrol Services Division. Major sources of this revenue include:

- resources for the Tobacco Tax Compliance Task Force of $1.8 million from the Department of Revenue. This revenue is now received as Other Funds from the Department of Revenue instead of General Fund as in 2001-03;
- marijuana eradication funding from the U.S. Forest Service ($75,000 Federal Funds), Bureau of Land Management ($100,000 Federal Funds) and from the Oregon Department of Justice ($54,802 Other Funds) which is expected to decline from 2001-03 levels;
- sex offender registration fees ($209,537 Other Funds) which is expected to increase slightly from 2001-03 levels;
- arson/bomb investigation funding ($1.9 million Other Funds) from the Fire Marshal;
- funding for High Intensity Drug Trafficking Areas, or HIDTA ($4.0 million Federal Funds) which is expected to increase by at least $500,000 for 2003-05;
- drug enforcement funding from the U.S. Drug Enforcement Agency ($263,664 Federal Funds) and federal drug seizures ($267,494 Federal Funds) which represents a decrease from 2001-03 levels; and
- resources transferred from the Department of Human Services ($318,837 Other Funds) for enforcement of tobacco use by minors.

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. For the first six months of 2002, the index crime rate had fallen to 484. 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. The first six months of 2002 shows increases in some of the major crimes like willful homicide, rape, and kidnapping. These are types of crimes where the Criminal Investigation Division 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, the 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 Services Division.

The 2001 Legislature created and provided General Fund resources for the Tobacco Tax Compliance Task Force which consists of staff from OSP, 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. The 2003-05 budget restores the original five positions lost in 2001-03 and adds another six positions.

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 (restored in the "sixth special session"). 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.

Legislatively Adopted Budget

The $22.1 million General Fund legislatively adopted budget for 2003-05 is $1.2 million, or 5.8%, more than the 2001-03 legislatively approved General Fund budget (an increase of $5.0 million total funds, or 17.8%). The General Fund increase would have been less except for 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. Other changes in the adopted budget include:

- 25 positions ($3.6 million General Fund) are eliminated representing the roll-up of the HB 5100 cuts involving staff performing activities relating to major/violent crime investigations, drug enforcement teams, and tobacco tax compliance.
- Over $1.4.million General Fund is reduced based on providing no merit step increases and the adjustment for changes in the PERS assessment.
- The original five positions performing activities of the Tobacco Tax Compliance Task Force are added back after being eliminated during 2001-03 ($0.8 million Other Funds) and six new positions are added to enhance revenues.

OSP – Forensic Services and Medical Examiners Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	20,529,928	24,414,309	16,522,267	22,835,328
Other Funds	7,117,693	8,000,375	3,742,308	3,655,297
Federal Funds	1,770,120	0	0	0
Total	**29,417,741**	**32,414,684**	**20,264,575**	**26,490,625**
FTE	199.13	197.02	61.26	113.0

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 may close in the future. 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	General Fund	Other Funds	Total	FTE
Forensic Services	$19,672,873	$2,641,237	$22,314,110	107.00
Medical Examiner's Office	$3,162,455	$1,014,060	$4,176,515	6.00

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 forensics and medical examiner equipment for the new Portland facility ($3.6 million Other Funds) 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 Other Funds from firearms-related background checks, and fingerprint and background checks for teachers and other professionals is transferred.

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. Forensics backlogs have increased from about 23 days in October of 2001 to a peak of over 30 days in September 2003. 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 2001-03 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 3,314 in September 2003.

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 were 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, will also include space for the Medical Examiner, who currently is in insufficient space in a former Portland area funeral home, and the implied consent and latent print units currently in Salem. The state has purchased the facility with COP proceeds, 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 Forensic Services Division saw the most significant decreases in resources of any OSP unit during the special sessions. Reductions totaling over $500,000 General Fund in capital outlay and services and supplies meant delayed purchases of equipment required to keep pace with technology changes. 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 greatly increased the turn-around time for tests and required priorities to be established on what testing must be done. This significantly affected others in the public safety system including law enforcement agencies, District Attorneys, and the court system. Forty of these positions were restored during the "sixth special session" for the final few months of the biennium. Reductions in the Medical Examiner's Office included vacancy savings and eliminating the reimbursements to counties for autopsies.

Legislatively Adopted Budget

The combined 2003-05 legislatively adopted General Fund budget of $22.8 million for Forensics Services and the Medical Examiners Office is $1.6 million, or 6.6%, less than the legislatively approved budget for 2001-03. The total funds budget is $5 million, or 18.2%, less for the same period. Part of this reduction ($3.0 million General Fund, $8.1 million Other Funds) is related to the transfer of Identification Services and 68 positions to the LEDS program in the Office of Information Management. Many of the positions eliminated during 2001-03 are added back to maintain the statewide forensics lab system, but there are still 36 fewer full-time permanent positions restored. Other major features of the 2003-05 budget include:

- Over $956,000 General Fund is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment.
- Fifty-seven of the 99 positions reduced during 2001-03 in the forensics system were restored ($7.6 million General Fund). Five of these positions were restored to keep the Bend lab open, but the specific resources for the Ontario and Pendleton labs were not identified and they may close in the future.
- Over $1.0 million General Fund was reduced in capital outlay and services and supplies, which represents the rollup of cuts made during the special sessions or in the October 2002 rebalance.
- There is a decrease in reimbursements to counties for autopsies ($36,743 General Fund) and increases for toxicology and pathology services contracts in the Medical Examiner's Office ($461,853 General Fund) to reflect the current cost estimates. In addition, one medical examiner position was eliminated, but resources will be available for contract services.
- Resources for rent were increased ($718,767 General Fund for Forensics and $374,187 General Fund for Medical Examiner) and new equipment ($2.6 million Other Funds for Forensics and $990,000 Other Funds

for Medical Examiners) as the new facility becomes available later in the 2003-05 biennium. The increases for equipment are financed from the sale of COPs and will require General Fund debt service.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral, then $3.9 million will be disappropriated from the Forensics and Medical Examiner's program based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. This reduction would most likely take place in the second year of the biennium and could represent roughly one third of the General Fund resources for this program during the second year.

OSP – Fish and Wildlife

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,805,187	4,379,947	3,981,688	3,701,608
Lottery Funds	3,303,064	4,857,534	5,032,023	5,566,608
Other Funds	11,634,134	13,966,914	14,277,788	14,389,176
Federal Funds	282,559	390,226	943,219	519,932
Total	**21,024,944**	**23,594,621**	**24,234,718**	**24,177,324**
FTE	129.99	125.50	118.82	125.07

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 (ODFW), 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 ($12.2 million Other Funds) 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 ($5.6 million Other Funds);
- Marine Board resources ($1.6 million Other Funds) for enforcement of boating laws and charters enforcement;
- Parks and Recreation Department funds for activities on the Deschutes River ($244,244 Other Funds);
- U.S. Army Corps of Engineers ($300,087 Federal Funds) revenue for enforcement activities across the state;
- Department of Environmental Quality ($211,276 Other Funds) revenue for environmental investigations;
- revenue from a new fee for shellfish-related enforcement ($270,000 Other Funds); and
- federal bottom fish enforcement grant ($225,000 Federal Funds).

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.

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 2002 fifth special session by $77,451 General Fund. 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 2002 revenue forecast shortfall.

Legislatively Adopted Budget

The 2003-05 legislatively adopted total funds budget of $24.2 million is a 2.5% increase from the 2001-03 legislatively approved budget. The General Fund budget for the same periods is $700,000, or 15.9% less. The General Fund decrease in part reflects the use of Other Funds revenue to fund positions that had been previously funded with General Fund. Major features of the 2003-05 budget include:

- Twelve of the 15 positions lost because of anticipated Other Funds revenue losses (Marine Board and ODFW) or budget reductions during 2001-03 are restored. Six positions which had been funded with General Fund (including the commercial fisheries positions) were funded with additional Ballot Measure 66 Lottery Funds, five of the positions were funded with additional funding from ODFW in part due to a fee increase, and another position was funded from savings identified by the Legislature.
- Almost $1.5 million total funds is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment. A portion of these savings is used to "buy-back" lost positions.
- The Cadet program was discontinued, resulting in the elimination of 21 positions (5.25 FTE); the funding will be used for temporary employees to perform similar functions.
- Six seasonal positions were established for retired troopers for natural resource enforcement. The positions are financed by funding already in the budget for temporaries.
- Increased funding from the federal government ($255,000 Federal Funds) 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.
- Two new positions were established and funded by a new license fee (SB 597) on shellfish ($270,000 Other Funds).
- Funding received from ODFW and other sources will pay for a greater share of the agency-wide rent payments, which allows for the restoration of positions elsewhere in the OSP budget.

OSP – Human Resource Services, Training and Criminal Justice Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	26,761,795	23,044,513	34,402,162	32,163,851
Other Funds	2,400,981	2,619,919	1,444,109	1,380,288
Federal Funds	32,789,237	53,055,734	56,508,275	77,990596
Total	**61,952,013**	**78,720,166**	**92,354,546**	**111,534,735**
FTE	156.25	132.15	164.83	164.83

The General Fund figures for 1999-01 and 2001-03 do not include $725,485 and $1,296,965 respectively that are related to state conflagration act fire costs. These amounts are part of the Human Resources budgeted appropriation but are included in the State Fire Marshal section since they are fire-related.

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 Training Unit recruits, selects, and retains the sworn workforce. The significant increase in the budget for the Human Resources Services Division is due to the transfer of the dispatch centers to this unit. 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 2003-05 legislatively adopted budget for the programs is as follows:

Program Area	General Fund	Other Funds	Federal Funds	Total	FTE
Human Resources and Training	$32,162,915	$1,379,788	$126,343	$33,669,046	152.83
Criminal Justice Services	$936	$500	$77,864,253	$77,865,689	12.00

Revenue Sources and Relationships

The General Fund supports the majority of the Human Resource Services costs. Training revenues are from the allocation of Criminal Fines and Assessment ($1.1 million). Federal Funds for the Criminal Justice Services Division programs are derived from a number of U.S. Department of Justice 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 2001-03 biennium was $4.4 million total funds and 17 positions. The 2003-05 budget has only 6 positions and over 80% of funding for services and supplies in the training budget was eliminated. 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 administers and coordinates 10 programs involving over $77 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 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 2001-03, net reductions of $2.7 million General Fund occurred in these units including:

- reduced six positions and $1.9 million General Fund in training resources (see discussion above);
- reduced the Human Resources Services budget by $800,000 General Fund assuming that at least one of the King Airplanes 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; and
- eliminated 55 positions, including positions related to support staff in the field and central office; aviation services; and staff relating to fiscal services, payroll, personnel, stockroom support, and labor relations.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for Human Resources Services, Training, and Criminal Justice Services increases by $32.8 million total funds, or 41.7%, from the 2001-03 legislatively approved budget for 2001-03. The General Fund budget grows by $9.1 million, or 4.0%, for the same period. The major factors for this increase reflect the transfer-in of the dispatch functions, the staff coordinating the SWAT and MRT teams ($12.6 million General Fund and 81 positions), and the addition of $21.6 million in additional federal grant funds from the Department of Homeland Security. After factoring out the impact of the transfer of dispatch functions and other reorganization issues, there is a reduction of 70 positions between the 2001-03 budget passed by the 2001 Legislature and the 2003-05 budget. Other major budget issues include:

- Five of the 55 positions lost in 2001-03 (see above) were restored to fill crucial business services functions including payroll, stockroom, and fiscal staff. The magnitude of the remaining permanent position reductions will leave OSP with over 25% fewer positions to perform the basic administrative, command coordination, dispatch, training, and support services.
- Over $1.2 million General Fund ($1.4 million total funds) is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment.
- A further seven positions ($787,498 General Fund) are eliminated from the dispatch function including four managers no longer needed due to the reorganization of dispatch into two centers for the entire state.
- General Fund resources for rent ($417,183) were backfilled with Other Funds revenue from ODFW to better reflect the use of the space between programs located in the field.

- Resources for debt service ($627,500 General Fund) are included for the planned COP issuance for new forensics 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.
- Two additional fiscal grant related staff in the Criminal Justice Services Division were added as part of the $21.6 million increase in Department of Homeland Security, of which roughly 80% is forwarded to local governments as grants.

OSP – Office of Information Management and Law Enforcement Data System

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	22,204,691	24,802,473	12,338,964	11,841,550
Other Funds	4,263,850	8,234,414	9,052,733	9,163,768
Federal Funds	448,512	0	0	0
Total	**26,917,053**	**33,036,887**	**21,391,697**	**21,005,318**
FTE	174.66	154.90	93.78	106.78

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 systems. 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.

Revenue Sources and Relationships

This Office is mainly supported by the General Fund but uses Other Funds revenue from 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 are 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 was only $39,543. This left 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 of 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, which is an option in only 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 2001-03 budget note 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 a net $3.8 million General Fund, or 13.3%, between the budget passed by the 2001 Legislature and the final 2001-03 budget. Major reductions include:
- A total of 63 positions were eliminated across all support areas including dispatch (which was part of the division during 2001-03), wireless communications support, data entry, application/technical support for information systems, and information oversight (including the Department's Chief Information Officer) and LEDS.
- Over $3.0 million total funds in capital outlay and services and supplies reductions were taken, which resulted in deferring system development and replacement of equipment. Since many of these cuts were "rolled-up" in the 2003-05 budget, this deferment will continue into the next biennium.
- A further 13 positions were left vacant to meet the gap because of the statewide December 2002 revenue shortfall, including further dispatch staff.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Office of Information Management, including LEDS, is $21.0 million total funds, or 36.4%, less than the 2001-03 legislatively approved budget ($11.8 million General Fund, 52.4% decrease for same period). Much of the reduction reflects organizational changes between divisions, including the transfer of dispatch functions to Human Resources and the transfer-in of Identification Services from Forensics. After taking into account the reorganization changes in the 2003-05 budget, the total number of positions for this Office is one third less than the number in the 2001-03 budget passed by the 2001 Legislature. Major features of the 2003-05 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.
- Eleven positions ($723,412 General Fund and $480,000 Other Funds) of those cut during 2001-03 are restored including five of the 14 Identification Services positions, three Uniform Crime Reporting positions and three Information Systems positions.
- Additional funding $500,000 General Fund was included for capital outlay resources. The Governor's budget had left less than $50,000 General Fund for capital outlay after the "roll-up" of the 2001-03 cuts. These resources can be used for wireless communications and information systems investments.
- Over $800,000 total funds is reduced based on elimination of merit step increases and the adjustment for changes in the PERS assessment.

OSP – Gaming Enforcement

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	55,099	160,000	194,706	85,850
Other Funds	6,932,705	7,887,069	8,294,761	7,795,004
Federal Funds	567	0	0	0
Total	**6,988,371**	**8,047,069**	**8,489,467**	**7,880,854**
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 ($78,000). 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 38 break-open ticket games per year. Currently, the Department monitors over 9,500 video lottery terminals located at over 1,500 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 varies from year to year. For example, in 2000, OSP conducted 475 background checks on retailers and in 2002 there were 428 checks performed.

Currently, there are eight tribal casinos operating 5,720 slot machines. This is an increase from only 2,600 machines in 1995. Another tribal government has received approval to open a gaming center in the Florence area. Some of the existing casinos are also considering expansions in their gaming centers.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget is $246,215 total funds, or 3.1%, less than the 2001-03 legislatively approved budget. This decrease is primarily the result of reductions in employee compensation resulting from elimination of merit-related increases and changes in the PERS assessments. 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 General Fund 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 Division's captain's costs.

OSP – Office of Emergency Management

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,065,525	1,381,774	1,694,156	1,668,763
Other Funds	1,606,698	57,729,296	63,936,901	63,867,356
Federal Funds	6,590,247	7,228,838	7,375,136	7,660,421
Nonlimited	87,403,450	21,359,947	21,359,947	21,359,947
Total	**96,665,920**	**87,699,855**	**94,366,140**	**94,556,487**
FTE	39.00	32.29	32.00	37.00

Program Description

The Oregon Emergency Management Division (OEM) is the lead unit 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 ($68 million Other Funds revenue assumed in 2003-05 budget). 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).

The major federal funding 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

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 reported 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. The 2003 Legislature did not continue the cap for 2003-05 and the planned 9-1-1 spending for state and local functions is budgeted at $63.6 million Other Funds. Actual spending will be dependent on 2003-05 revenues.

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 to local government. Additional federal funds are designated to go for Community Emergency Response Teams (CERT) 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 $80 million has been provided to Oregon in support of building an "adequate" emergency preparedness program in Morrow and Umatilla counties. In June 2002, 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. It is not certain at this time as to how the creation of the new Homeland Security Department will impact the program and the relationship between the Army and FEMA.

OEM 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 General Fund reductions included changing the revenue mix for funding positions utilizing Other and Federal Funds sources. This funding mix change meant that OEM lost federal funds since there was insufficient General Fund to fully match the available federal funding.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget of $94.6 million total funds is $6.9 million, or 7.9%, greater than the 2001-03 legislatively approved budget ($287,000 and 20.8% increase for General Fund over the same period). This increase is primarily due to the expected increase in 9-1-1 spending for both state and local functions due to anticipated revenue increases and the elimination of the $56 million cap on 9-1-1 spending that was in place for 2001-03. Other major budget actions included:

- The funding for the additional rent at the new C-4 building is included as OEM moved into the new facility in early 2003.
- A new Geographic Information System (GIS) position funded through 9-1-1 revenue is approved to update the phase II mapping relating to cellular phones ($186,710 Other Funds).
- The Chemical Stockpile Emergency Preparedness Program public information officer position is transferred to Umatilla County ($114,609 Federal Funds).
- Three new positions ($373,225 Federal Funds) are added as part of the $22 million increase in federal homeland security funding. The positions include a trainer, a planner, and a statewide coordinator for exercises relating to weapons of mass destruction.

OSP – State Fire Marshal

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	725,485	1,296,965	0	0
Other Funds	13,170,712	13,950,089	14,819,232	14,369,965
Federal Funds	14,288	3,417,527	458,536	452,916
Total	**13,910,485**	**18,664,581**	**15,277,768**	**14,822,881**
FTE	80.71	80.67	72.00	76.00

The General Fund figures for 1999-01 and 2001-03 budget is appropriated to the Human Resources budgeted appropriation but are shown here since they are for fire-related costs.

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.

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 casualty insurance. In recent years, the level of revenue from the FIPT has fallen (see below) and the 2003 Legislature made statutory changes to continue a steady but lower stream of FIPT revenues. The 2003-05 forecasted revenues for 2003-05 is $12.9 million Other Funds. A portion of these FIPT funds are transferred to the Department of Public Safety Standards and Training ($591,680) and the Criminal Investigation Division of OSP ($1.9 million), while the remainder will be used for Fire Marshal programs.

Other Funds revenue supporting the Fire Marshal programs also include non-retail fuel dispensing fees ($0.5 million) for card lock enforcement, hazardous substance user fees ($2.8 million) for the Community Right to Know program, and petroleum load fees ($2.3 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 for fire and life safety inspections of Medicare and Medicaid funded facilities.

Budget Environment

The Fire Insurance Premium Tax is the source of funding for the fire prevention and investigation functions of the Fire Marshal and was 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. The combination of Oregon Insurance Guarantee Association (OIGA) assessments and insurance company losses due to higher claims and lower investments earnings resulted in much lower than anticipated FIPT revenues available for all of these programs in recent years. 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, reducing consultation with local fire agencies, reducing inspections and code enforcement, delaying equipment purchases, reducing public information outreach, and reducing administrative costs. Without the changes in the structure of the FIPT made by the 2003 Legislature (HB 3051), it had been anticipated that FIPT revenue would have been dramatically less or eliminated in 2003-05 and future biennia.

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 Tualatin 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 was 48 but the long term trend continues down.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the State Fire Marshal of $14.8 million total funds is $3.9 million, or 20.9%, less than the 2001-03 legislatively approved budget. The decrease is due to the presence of funding paid to local fire agencies under the Conflagration Act for 2001 and 2002 fire season costs. These costs are not part of the initial legislatively adopted budget and are added during the biennium after the fire seasons. The 2001-03 General Fund resources are all Conflagration-related costs. Without these fire-related costs included, the 2003-05 total funds budget is $655,047, or 4.6%, greater than the 2001-03 budget. Major budget decisions other than standard adjustments include:

- Nine of the 14 positions lost during 2001-03, due to falling FIPT and card-lock revenues, were restored. Increased fee revenues (LPG, fireworks, and explosives fees) and the legislative changes to stabilize the FIPT revenues provided the resources to restore the positions. Positions not restored in the budget include three card-lock staff including two inspectors, a planning education manager, and a data services manager.
- Funding for a fifteenth Haz-Mat team, located in Salem, was included in the budget as well as resources for equipment replacement and training available for all teams across the state ($634,183 Other Funds).
- Limitation for a federal planning grant for the Hazardous Materials program ($235,000 Federal Funds) was also approved.

Department of Public Safety Standards and Training – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	17,018,755	102,793,560	20,862,843	23,203,488
Federal Funds	536,741	274,000	217,350	217,350
Total	**17,555,496**	**103,067,560**	**21,080,193**	**23,420,838**
FTE	102.22	108.37	93.25	91.25

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 33,000 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 officers, 9-1-1 tele-communicators and emergency medical dispatchers. Mandated training is set out by statute or rule, and ranges from ten weeks for the basic police course, five weeks for corrections officers, four weeks for parole and probation officers, two weeks for tele-communicators, and one week for emergency medical dispatchers. The administrative functions of the agency and debt service 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 meet minimum requirements. 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, licensing, and certification to private security personnel that meet minimum requirements. There are approximately 500 private security firms and 12,000 private security providers statewide.
- 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 regional offices in four locations. The agency has professional trainers on staff but also relies on part-time trainers who are practicing professionals in their fields from local public safety agencies. A 24-member Board establishes minimum employment and training standards.

Total Funds by Program Area

	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	22,687,913	1,693,536	1,048,611	517,500	77,120,000
2003-05 Legislatively Adopted	20,433,667	1,475,391	968,462	543,318	0

The capital construction figure for 2001-03 is a one-time increase for the new Salem training facility. Debt service is included in the Criminal Justice program area.

Revenue Sources and Relationships

The primary revenue source for the ***Criminal Justice Training and Certification Program*** is the Criminal Fine 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. The final allocation by the 2003 Legislature changed this distribution with 66.35% going to the General Fund and the remaining 35.65% allocated to the Public Safety Account. HB 2877 also established a priority order for the distribution of the Public Safety Fund: (1) first for DPSST facility debt service, program costs, and other state law enforcement training; (2) then compensation and assistance for victims of crime; and (3) finally emergency medical services.

CFAA revenues allocated to DPSST's Criminal Justice Training and Certification Program for 2003-05 totals $14,949,930 (another $400,000 is allocated to the Public Safety Memorial Fund). This program is also funded with polygraph examiner licensing fees and miscellaneous revenues ($124,463), a grant from ODOT ($275,262), revenue from the 9-1-1 telephone tax ($394,090) for the 9-1-1 tele-communicators 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 (FIPT) ($1.2 million). The 2003 Legislature changed the structure of the FIPT to provide a more stable source of revenue. This revenue source had not kept pace with the growth in the fire related programs across state government. 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 funds the ***Public Safety Memorial Fund*** with an allocation for 2003-05 of $400,000 in addition to the $143,318 in available carry-forward funding.

Budget Environment

At its October 2002 meeting, the Emergency Board increased the Other Funds Capital Construction expenditure limitation by $73.2 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 move the Oregon State Police training program to 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 2003-05 legislatively adopted budget assumes an opening date in Fall 2006, but limits the debt service needs for 2003-05 by capitalizing a portion of debt service within the COP sale. Anticipated debt service for 2005-07 totals $12.8 million with $11.5 million representing the roll-up of the new debt service commitment approved during the 2003 legislative session.

Two of the major funding sources for DPSST did not keep 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. 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. In 2001-03, DPSST left a number of CFAA funded positions vacant which are also not funded in the 2003-05 legislatively adopted budget. Depending on how public safety agencies both at the state and local levels manage to budget reductions, future funding for CFAA could be reduced 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 combination of Oregon Insurance Guarantee Association (OIGA) assessments and insurance company losses due to higher claims and lower investments earnings resulted in much lower than anticipated FIPT revenues available for programs in the State Police and this agency. Without the changes in the structure of the FIPT made by the 2003 Legislature (HB 3051), it had been anticipated that FIPT revenue would have been dramatically less or eliminated in 2003-05 and future biennia.

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 public safety agencies 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, over 650 parole and probation officers, over 4,000 correctional officers and jailers, over 11,600 fire related personnel, almost 1,000 emergency tele-communicators, and over 7,800 private security personnel. Trends affecting the demand for DPSST services include:

- There has been growth in law enforcement officers (police and sheriff) 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 is slowing. 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 demand for corrections training 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 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 local agency 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.

Legislatively Adopted Budget

The legislatively adopted budget of $23.4 million total funds is $2.5 million or 9.7% less than the 2001-03 legislatively approved budget (not including capital construction). After factoring out the new debt service and financing costs for the Salem training facility included in the 2003-05 budget, the decline in program funding is over 20%. These reductions generally reflect the revenue losses in CFAA. Staffing resources agency-wide decrease from 108.37 FTE in 2001-03 to 91.25 in 2003-05, a decline of almost 16%.

This budget reflects the decision to move forward with the construction of the new training facility in Salem (scheduled to open in Fall 2006), increasing the debt service and financing costs in this budget by over $3.0 million. The roll-up cost in 2005-07 for debt service on the training facility is estimated at $12.8 million. In addition, plans are being developed to increase the training program as the facility opens, creating a need for greater program resources beginning in 2005-07.

Criminal Justice Standards and Certification: The 2003-05 budget reduces the resources for this function mainly driven by the declining CFAA revenues to this agency. The basic training courses at the academy are generally maintained (one position was lost) while other programs such as regional and specialized training are hit harder by the decreases. Reductions in this program area other than the standard adjustments for employee compensation, assessments, and inflation (which totaled $733,806) include:

- Regional training is reduced by four positions along with cuts to services and supplies/capital outlay ($683,482 Other Funds). 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 certified 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 unit 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 ($153,510). This will significantly reduce the purchase of new training equipment and lengthen the replacement cycle for computers and other equipment.
- Specific subject training resources are reduced or eliminated including: 1) Supervision and middle management was reduced by two positions ($336,291); 2) elimination of the Public Safety Executive Training Seminar ($151,628); 3) elimination of the Oregon Executive Development Institute and other leadership training ($53,510); 4) elimination of funding for the DARE program ($12,247); 5) elimination of the Oregon State Police specialized training ($82,469); and 6) reduction of the child abuse training program by 50% ($145,493).
- Administrative services will be cut by two positions ($176,739) reducing resources for accounting, payroll, and administrative support.
- Resources for the rent at the Salem office were eliminated ($189,719) and staff will relocate to the Monmouth office. Depending on whether DAS is able to identify a tenant for that space, the full amount of this savings may not be realized.

Fire Standards and Training: In addition to the standard adjustments for employee compensation, assessments, and inflation, which totaled $79,374, this unit lost one position ($153,510).

Private Security: Standard adjustments totaling $79,001 Other Funds were reduced for employee compensation, assessments and inflation. The 2003-05 budget assumes a fee increase in the program.

Memorial Fund: No new resources were allocated to this program in the Governor's 2003-05 budget, relying on $143,318 of carry-forward resources. The Legislature did allocate another $400,000 in CFAA funding making a total of $534,318 available for this program.

Oregon Youth Authority (OYA) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	205,465,537	217,220,601	201,112,085	201,579,106
Other Funds	15,329,455	15,968,307	12,025,792	12,801,776
Federal Funds	24,830,368	27,472,725	24,669,594	25,927,386
Total	**245,625,360**	**260,661,633**	**237,807,471**	**240,308,268**
Positions (FTE)	1,233.05	1,277.79	971.41	1,032.29

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 2003-05 biennium, it will operate 10 facilities: youth correctional facilities at Burns, Grants Pass, Salem, Warrenton and Woodburn; a youth accountability camp at Tillamook; and transition programs in Corvallis, Florence, La Grande and Tillamook. 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.

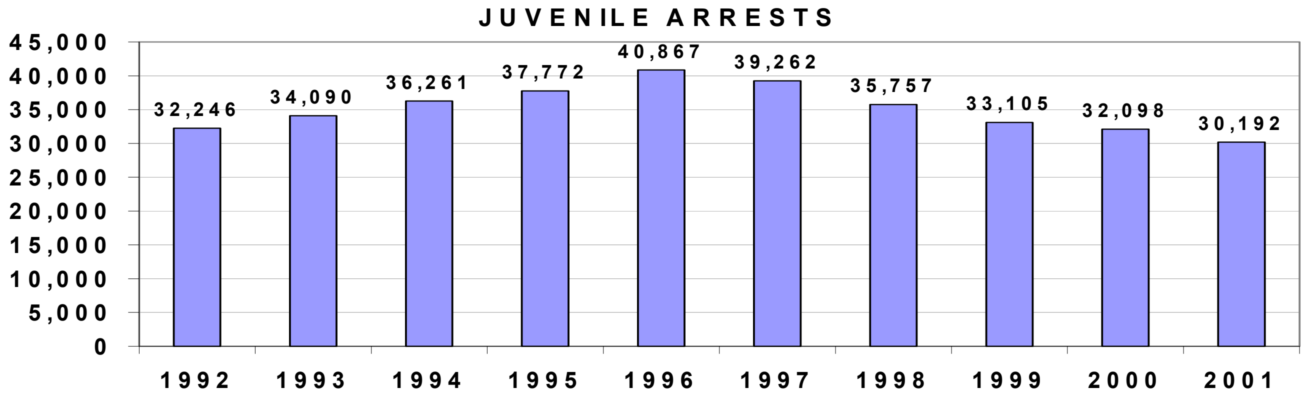
Federal Funds revenues reflect Title XIX Medicaid reimbursements, which pay for part of the cost of out-of-home placements and treatment services, case management services, and services for paroled youth. Title XIX reimburses 50% of eligible administrative costs and about 60% of eligible case management 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 constraints, Medicaid reimbursements decline as well. The 2003-05 legislatively adopted budget projects $25.9 million in Medicaid reimbursements. This includes $0.6 million from a temporary increase in the federal match rate approved in the Jobs and Growth Tax Relief Reconciliation Act of 2003.

Federal funding is generally 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 $0.1 million 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. When these regional facilities closed in 2001-03, the detention beds were closed and these revenues were reduced. The Burns and Warrenton facility detention beds will be reopened in 2003-05. OYA thus expects a total of $3.2 million in contract revenues for 2003-05. Other Funds sources also include more than $4 million from child support and other assets of the youth, who are billed for part of the cost of care provided in OYA out-of-home placements.

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. Two critical factors in the forecast are juvenile arrest rates and the length of stay for youth committed to OYA. OEA expects juvenile arrest rates for 15 to 17 year olds will grow only slightly over the next several years, remaining much lower than during the 1980s and 1990s. The average length of stay has increased significantly over the past several years, however, primarily due to growth in the number of juvenile court sex offenders and adult court inmates. In this circumstance, the juvenile close custody population would be expected to grow. In fact, OEA's October 2002 forecast noted 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 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 projected that the close custody population would be at 1,058 on July 1, 2003, growing to 1,125 at July 1, 2005. The juvenile facility population was expected to level out at about 1,300-1,320 beginning in 2010, assuming no change in current law and practice. However, budget reductions made in the 2001-03 interim and continued into the 2003-05 biennium have reduced the number of discretionary beds available for county commitments. The October 2003 forecast now shows a population of 812 on July 1, 2003, growing to 900 at July 1, 2005, and topping out at 1,049 in November 2012. This continued drop in the forecast population underscores the interaction between the supply of discretionary beds and the population forecast: youth who might otherwise be committed to OYA will likely not be committed if it requires release of another youth with more serious offenses to keep a county within its capped bed allocation, causing the overall number of new commitments to drop, and the "demand" for close custody beds to appear lower. For this reason, the forecast should not be used as a gauge of some optimal number of state close custody beds, or of potential demand for these services.

OYA currently has physical capacity for 1,131 close custody beds, with an additional 50 beds at Hillcrest expected to be available in summer 2004. The total counts all beds at the permanently constructed facilities, including the 150 vacant beds at Prineville and Albany regional facilities, as well as 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 youth in OYA's custody are ethnic minorities, compared to 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 March 2003, SB 5548 made further 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Oregon Youth Authority is $201.6 million General Fund and $240.3 million total funds. This is a reduction of 8.3% General Fund and 8.7% total funds from the agency's final 2001-03 legislatively approved budget. The decrease reflects reductions made during 2001-03 in close custody facilities and community programs which are carried forward into 2003-05, as well as other staff and operational savings approved by the Legislature.

During the 2001-03 interim, 250 close custody beds were closed at youth correctional facilities in Albany, Burns, Prineville, and Warrenton. The Legislature restored $7.9 million General Fund to reopen 100 beds in the Burns and Warrenton facilities. The beds will be phased-in beginning November 2003. This will bring the average close custody capacity to 849 beds for the biennium, about a 24% reduction from the average 1,113 beds originally funded for the 2001-03 biennium.

Community services were also reduced during the 2001-03 interim, affecting county juvenile crime prevention and diversion grants, residential care and treatment, individualized services, and parole and probation staff. The 2003-05 budget carries forward most of these reductions, but the Legislature added back $2.1 million General Fund for community services such as foster care, residential treatment, individualized services, and parole and probation staff to support the restored close custody beds at the Burns and Warrenton facilities. The budget also eliminates the remaining $1.2 million General Fund earmarked to support the Deschutes County delinquent youth demonstration project.

If the temporary graduated income tax assessments adopted by the Legislature as part of HB 2152 are rescinded through a referral to Oregon voters, then $5.8 million General Fund (OYA's share of $544.6 million statewide) will be disappropriated, based on the provisions of HB 5077. If the statewide disappropriation amount of $544.6 million is not adequate to maintain a balanced budget, additional allotment reductions across all appropriation categories may be implemented by the Governor. How OYA would manage any budgetary disappropriation or allotment reduction during the 2003-05 biennium has not yet been determined. However, the largest share of OYA's budget supports Facilities and Community Programs, so it is highly likely that savings or program reductions in those areas would need to be considered.

OYA – Community Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	67,379,637	74,075,721	69,910,985	69,118,778
Other Funds	2,459,695	2,495,283	2,449,566	2,450,105
Federal Funds	23,411,846	26,223,245	23,831,598	25,146,923
Total	**93,251,178**	**102,794,249**	**96,192,149**	**96,715,806**
Positions (FTE)	168.50	168.12	168.29	171.93

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 four different budget elements: parole and probation services; community care and treatment resources; county grants, and the Program Office.

- 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.
- 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 Community 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, such as 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 allocated $14.9 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 also allocated $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. However, the pilot project agreement has been terminated as a result of the SB 5548 budget reductions.

The Deschutes County project was audited during the 2001-03 biennium by the Secretary of State. Separate project evaluations were also done by the University of Oregon's Institute on Violence and Destructive

Behavior, and by Greenwood & Associates, Inc. under a Robert Wood Johnson Foundation grant. Some of the reports findings are as follows:

- 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 costs 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. However, evaluators could not yet conclude that the early higher recidivism rates for the project youth indicated continuing higher offense rates for those youth.
- 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 effectiveness of the prevention programs would likely be improved if the programs were replaced with "proven" cost-effective models from the University of Colorado's *Blueprints for Violence Prevention* list, or modified to add components that would make the Deschutes County programs more like those models.

Specific budget reductions during the 2001-03 interim 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 reduced total General Fund resources for Community Programs by an additional 3.9% for the biennium. This 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 the closure of regional youth correctional facilities and resulting release of youth to their communities, makes it more difficult for communities to effectively manage at-risk youth and offenders locally.

Legislatively Adopted Budget

The Community Programs budget for 2003-05 is 6.7% General Fund and 5.9% total funds lower than the 2001-03 legislatively approved budget at the close of the 2003 session. The Legislature added back $2 million General Fund and $0.7 million Federal Funds for community programs related to restoring 100 youth correctional facility beds at Burns and Warrenton over the 2003-05 biennium. Even with this restoration, the budget reflects $12.7 million General Fund and $2.7 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. Other General Fund reductions include $1.8 million for inflation increases for services and supplies expenditures and special payments, $0.2 million for position salary step increases, and $0.7 million for PERS rate adjustments.

The programmatic impact of these budget actions is to:

- Eliminate all shelter program capacity (62.4 contracted beds); reduce contracted residential and foster care beds; and reduce individual treatment and support services. The 2001-03 legislatively approved budget included about $58 million total funds for residential, shelter, foster care, and individualized services; the $55 million in the legislatively adopted budget for 2003-05 is about 5% less than in 2001-03.
- Reduce county diversion and juvenile crime prevention grant resources by $4.7 million total funds, down about 31% from the 2001-03 legislatively approved budget level.
- Reduce funding for Multnomah County gang intervention to $2.4 million General Fund, an 18% reduction from the $3 million remaining in the 2001-03 legislatively approved budget.
- Eliminate the remaining $1.2 million General Fund dedicated to the Deschutes County delinquent youth demonstration project. Although the funding was targeted to this pilot project, ending the project eliminates the equivalent of 5 close custody beds in the statewide system.
- Eliminate 13 parole and probation positions statewide. Total funding for parole and probation, however, is higher than in the 2001-03 budget, reflecting higher personnel costs phased-in during 2001-03.

OYA – Facilities

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	113,522,271	115,010,043	100,669,475	103,009,161
Other Funds	6,505,851	10,108,948	7,971,329	8,800,424
Federal Funds	676,722	633,672	82,082	55,051
Total	**120,704,844**	**125,752,663**	**108,722,886**	**111,864,636**
Positions (FTE)	1,002.72	1,042.17	738.49	797.90

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 2003-05 budget does not fund operations at the Prineville and Albany youth correctional facilities.

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 most recent forecast shows a population of 812 on July 1, 2003, growing to 900 at July 1, 2005, and topping out at 1,049 in November 2012, assuming no change in current law and practice. As discussed earlier, however, this forecast reflects reductions in discretionary bed capacity made during the 2001-03 biennium and continuing into 2003-05. It is neither a recommendation on optimal close custody capacity nor a demand analysis.

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 planned opening of 25 beds at La Grande. The 2001-03 budget was further reduced by $4.4 million General Fund in HB 5100. The regional youth correctional facilities in Burns, Warrenton, Albany, and Prineville were 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. 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 reductions made during the 2003 session in SB 5548.

Legislatively Adopted Budget

Funding for Facilities is 10.4% General Fund and 11.0% total funds less than in the 2001-03 legislatively approved budget at the close of the 2003 session. The reduction reflects General Fund savings of $0.7 million for services and supplies inflationary increases, $1.0 million for position salary step increases, $1.0 million for vacant position adjustments, and $3.6 million for PERS rate adjustments.

The Legislature added back $7.9 million General Fund to restore 100 of the 125 youth correctional facility beds at Burns and Warrenton, and $0.9 million Other Funds expenditure limitation to operate county detention beds in Burns. The additional funding will add back 128 positions (67.97 FTE) in those facilities. The restored beds will be phased-in over the 2003-05 biennium, for an average of 849 close custody beds funded during the 2003-05 biennium. The 125 beds eliminated during the 2001-03 biennium at Prineville and Albany remain unfunded.

OYA – Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	10,674,386	16,317,315	19,739,776	18,659,318
Other Funds	6,263,909	1,183,890	1,226,811	1,185,947
Federal Funds	741,800	615,808	755,914	725,412
Total	**17,680,095**	**18,117,013**	**21,722,501**	**20,570,677**
Positions (FTE)	61.83	67.50	64.63	62.46

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 eliminated six full-time positions and $253,843 General Fund; this included three information systems positions, two employee services positions, and one accounting position. The interim 2001-03 General Fund reductions, exclusive of salary under funding, were about 2% of the legislatively adopted budget level.

Legislatively Adopted Budget

The adopted budget for the Administration program is 14.3% General Fund and 13.5% total funds higher than the 2001-03 legislatively approved budget at the close of the 2003 session. 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 costs. The budget continues the HB 5100 position reductions, eliminates three other vacant positions (2.17 FTE), and removes funding for services and supplies inflation. Legislative adjustments were also made for federal Medicaid match rate changes; lower PERS rates, Department of Administrative Services assessments, Attorney General rates, and Secretary of State Audits Division charges; and elimination of the Capitol Planning Commission assessment.

OYA – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	12,119,563	11,500,162	10,585,600	10,585,600
Other Funds	0	814,886	0	0
Total	**12,119,563**	**12,315,048**	**10,585,600**	**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.

Legislatively Adopted Budget

The adopted budget funds existing debt service obligations, as proposed in the Governor's budget.

OYA – Capital Improvement/Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,769,680	317,360	206,249	206,249
Other Funds	100,000	1,365,300	378,086	365,300
Total	**1,869,680**	**1,682,660**	**584,335**	**571,549**
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 has 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 2003-05 legislatively adopted budget funds only a small part of these identified needs.

Legislatively Adopted Budget

The 2003-05 budget will allow OYA to undertake a limited number of capital repair and improvement projects, but no work toward replacing Corvallis House and Whiteaker Hall. The $571,549 total funds for Capital Improvement are the same as the 2001-03 levels, with no inflation for budgeted 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 legislatively adopted budget.

Economic and Community Development

County Fairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,000,000	0	0	0
Lottery Funds	0	3,061,250	3,167,100	2,530,173
Total	**3,000,000**	**3,061,250**	**3,167,100**	**2,530,173**
FTE	0	0	0	0

Note: County Fairs was previously included in the Natural Resources program area under the Department of Agriculture. In the Budget Highlights of the 2003-05 legislatively adopted budget, it is included in the Department of Administrative Services total. Henceforth, County Fairs will be reported as a separate agency in the Economic and Community Development program area.

Program Description

County Fairs are provided state support as a pass-through by the Department of Administrative Services for financial assistance related to county fair activities. State funding is overseen by the County Fair Commission which distributes monies each January in equal shares to county fairs.

Revenue Sources and Relationships

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 to Lottery Funds for 2001-03 and future biennia with the passage of HB 3530 (2001). 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.

Budget Environment

The 2001-03 budget for county fair support was reduced by $38,750 Lottery Funds during the 2002 second special session. The statutorily required distribution of net Lottery proceeds was reduced to reflect this budget cut.

Legislatively Adopted Budget

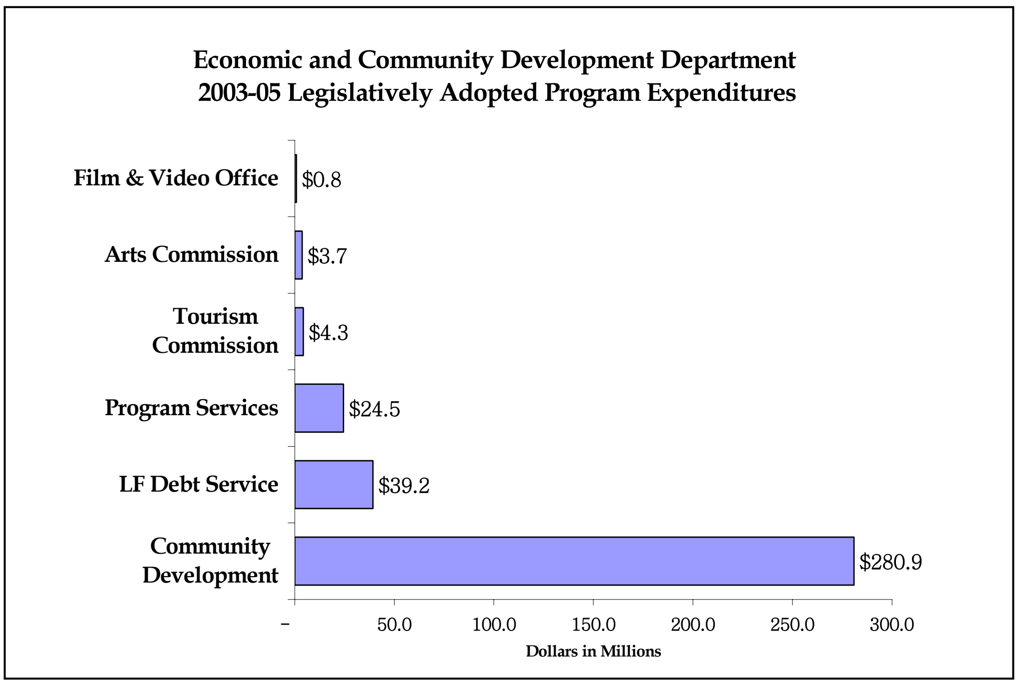
The Governor’s budget included $3,167,100 Lottery Funds funding for county fairs in the Department of Agriculture budget. The 2003 Legislature reduced this amount to $2,530,173 and transferred the funding to the Department of Administrative Services (DAS) for pass through to county fairs. The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass through funding resides in the DAS budget. The statutorily required distribution of net Lottery proceeds was also reduced to reflect this lower funding. The Department of Agriculture retained $34,000 Lottery Funds for the operational expenses of the County Fair Commission. Therefore, the actual Lottery Funds amount for state support of county fairs is $2,564,173 Lottery Funds.

Economic and Community Development Department (OECDD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,648,325	2,391,710	2,128,104	1,168,674
Lottery Funds	62,052,195	74,167,148	99,957,687	76,927,608
Lottery Funds - Carryover	7,150,000	5,925,800	2,835,069	9,094,878
Other Funds	11,910,323	44,702,055	36,518,942	32,223,872
Federal Funds	32,652,054	52,612,386	43,888,961	36,943,640
Nonlimited	134,506,488	279,397,546	197,031,413	197,030,302
Total	**251,919,385**	**459,196,645**	**382,360,176**	**353,388,974**
FTE	144.76	147.50	131.33	124.29

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.

Budget Environment

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, ports, 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. A portion of the $181.1 million in bonds was scheduled for sale in early May 2003. This sale was deferred by the 2003 Legislature, and $64.7 million of this infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium will be issued in the 2003-05 biennium. The 2003 Legislature also authorized $4 million in bonding authority for small ports.

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 was reported to the 2003 Legislative Assembly. Based on the recommendations from that report, a budget note directs the agency to select performance data elements that reflect the refocus of its efforts, and to seek review and approval from the Joint Legislative Audit Committee.

Legislatively Adopted Budget

The 2003 Legislature directed the agency to focus its efforts on the primary goal of assisting business to create new jobs and retain existing jobs. The agency was directed by budget note to report to the Emergency Board on the use of the Strategic Reserve fund, including planned and actual outcomes. The agency and the counties entered into an agreement that ensures that $1.69 million from the Strategic Reserve fund will be dedicated to job creation and retention in rural and distressed communities. A further agreement between the agency and the counties funds the Governor's Economic Revitalization Team (formerly the Community Solutions Team) with $610,000 in Lottery Funds that would otherwise have been distributed to regions, and with $360,000 from interest earnings on the Special Public Works Revolving Loan Fund that would otherwise have been used for related grants. These funds are reduced in the agency's budget and are reflected in the budget for the Governor's Office. The Governor's Office is directed to work in the interim to identify permanent funding for the Team.

The 2003-05 budget reflected actions taken by the Economic and Community Development Department to streamline its operations and to refocus its efforts towards the primary goal of assisting businesses to create new jobs and retain existing jobs. The total reduction resulting from this effort was $27 million and 10.62 FTE. The Department has committed to a level of job creation and retention for its core programs based on this internal restructuring, and will report on the outcome of this plan to the 2005 Legislature.

OECDD – Program Services

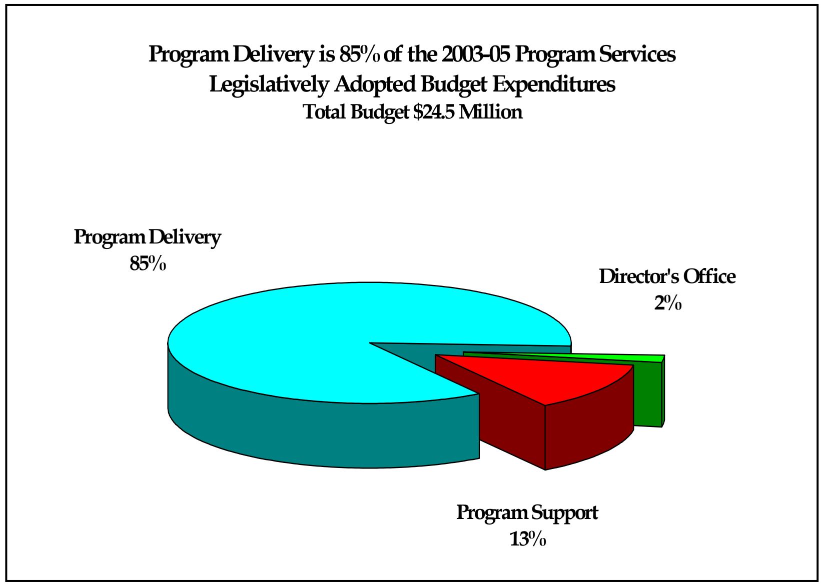
	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	16,137,972	15,260,960	16,227,012	15,152,192
Lottery Funds - Carryover				35,000
Other Funds	7,317,682	10,285,867	10,020,541	7,818,799
Federal Funds	1,327,223	2,513,496	2,850,215	1,531,746
Total	**24,782,877**	**28,060,323**	**29,097,768**	**24,537,737**
FTE	125.76	132.50	116.25	107.38

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, Community Development, 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.

Program Delivery provides assistance to Oregon businesses and industry sectors and focuses on job creation and retention. Services also include infrastructure and business development planning and financial assistance for Oregon's communities and 23 ports, as well as the 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 Department participates in the Economic Revitalization Team effort (formerly the Community Solutions Team) to coordinate the delivery of state services. 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.



Revenue Sources and Relationships

Estimated revenues for 2003-05 include: $15.2 million in Lottery Funds, $1.5 million in Federal Funds for administration of federal programs and the Community Development Block Grant program, and $7.8 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

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 2003 Legislature deferred $64.7 million of infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium into the 2003-05 biennium, and authorized $4 million in bonding authority for small ports. As noted below, staffing levels for this workload has been reduced.

Legislatively Adopted Budget

The 2003 Legislature approved a budget of $24.5 million total funds and 107.38 FTE for Program Services. This was a reduction of $4.6 million and 8.87 FTE from the Governor's budget. The budget was reduced by $660,876 Lottery Funds, $1,980,451 Other Funds, and $1,279,521 Federal Funds, of which $3.6 million reflected reductions from streamlining service delivery based on the internal refocus of activities. The remainder was from reductions in inflation, merit, Attorney General rates, and Department of Administrative Services charges. There was an additional reduction of $674,183 from PERS and Secretary of State Audits assessment reductions.

OECDD – Community Development Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	320,000	0	0
Lottery Funds	33,321,079	34,222,727	25,644,473	22,384,473
Lottery Funds - Carryover	7,150,000	5,633,899	2,827,174	4,453,645
Other Funds	4,154,378	34,102,070	25,926,825	23,389,811

Federal Funds	30,152,129	48,166,006	39,244,883	33,675,944
Nonlimited	134,506,488	279,397,546	197,031,413	197,030,302
Total	**209,284,074**	**401,842,248**	**290,674,768**	**280,934,175**
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 2001 Legislature increased authority levels to $200 million for the Oregon Bond Bank and $250 million for Industrial Development Revenue Bonds. This bonding authority finances capital projects to benefit businesses and counties through the Special Public Works Fund, the Water/Wastewater Fund, and the Industrial Development Revenue Bond program. The mixture of bond, loan, and grant funds increases OECDD's capacity for financing projects. This results in more flexibility in the use of funds for financing activities across programs. The Safe Drinking Water Revolving Loan Fund brings federal resources to this mix.

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 of the $181.1 million in bonds was scheduled for sale in early May 2003. This sale was deferred by the 2003 Legislature, and $64.7 million of this infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium will be issued in the 2003-05 biennium. The 2003 Legislature also authorized $4 million in bonding authority for small ports.

Legislatively Adopted Budget

The 2003 Legislature approved a budget of $280.9 million total funds for the Community Development Program. This was a reduction of $9.7 million total funds below the Governor's budget. Most of this reduction ($8.3 million) reflected reductions from streamlining service delivery based on the internal refocus of activities. The remainder was from reductions in inflation, Attorney General rates, and Department of Administrative Services charges.

OECDD – Oregon Tourism Commission

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	6,244,165	6,059,994	6,475,969	3,990,572

Other Funds	375	176,445	190,355	185,773
Federal Funds	56,529	256,250	81,250	81,250
Total	**6,301,069**	**6,492,689**	**6,747,574**	**4,257,595**
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 Tourism Commission 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. The Tourism Commission also formed partnerships with other states and Canadian provinces in the Pacific Northwest. The Commission estimates that close to $114 in visitor spending in Oregon is generated for each state dollar invested in advertising expenditures.

Legislatively Adopted Budget

The 2003 Legislature approved a budget of $4.3 million total funds and 10 FTE for the Tourism Commission. This budget funded approximately 1 year of operating expenses for the Commission, pending full implementation of HB 2267 (2003). This bill established a state transient lodging tax and dedicated the funds to tourism, including 15% that was dedicated to regional cooperative tourism marketing programs. The bill established the Tourism Commission as a semi-independent state agency, but retained legislative oversight over that portion of the budget funded with Lottery Funds. The budget was also adjusted for reduced assessments for PERS, the Secretary of State, and the Department of Administrative Services, and to eliminate merit pay and inflation increases.

OECDD – Film and Video Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	948,788	837,119	955,428	821,880
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 and television. 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.

Legislatively Adopted Budget

The legislatively adopted budget funded the program at the biennialized 2001-03 legislatively approved budget level, and eliminated the inflation increase.

OECDD – Arts Commission

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,886,451	2,071,710	2,128,104	1,168,674
Other Funds	84,910	137,673	381,221	829,489
Federal Funds	1,116,173	1,676,634	1,712,613	1,654,700
Total	**4,087,534**	**3,886,017**	**4,221,938**	**3,652,863**
FTE	5.00	5.00	5.08	6.91

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

In addition to its other responsibilities, the Arts Commission cooperates with the Tourism Commission on cultural tourism promotions and activities that draw visitors. The 2003 Legislature transferred the Oregon Cultural Trust, which had been housed in the Secretary of State's Office in 2001-03, to the Arts Commission effective September 1, 2003. The mission of the Oregon Cultural Trust is to build a new public-private fund to support arts, humanities, and heritage sectors.

Legislatively Adopted Budget

The 2003 Legislature funded the Arts Commission at $3.7 million total funds and 6.91 FTE. The General Fund support for the Commission was reduced to $1.2 million, which was the minimum funding level required to meet matching funds requirements for federal arts programs. The 2003 Legislature also transferred the Oregon Cultural Trust program and 1.83 FTE support staff from the Secretary of State's Office to the Arts Commission, with the expectation that the combined programs will result in improved efficiencies and that funds raised for the Trust will help to support the Commission. The budget included $310,000 Other Funds expenditure limitation and 0.08 FTE for implementation of a Ford Foundation grant to fund artist residencies for rural schools, and a $115 net fund shift in the Arts Across Oregon program to consolidate all Federal Funds for grants to the arts communities. The budget was also adjusted for reduced assessments for PERS, the Secretary of State, and the Department of Administrative Services, and to eliminate merit pay and inflation increases.

OECDD – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	5,400,191	17,786,348	50,654,805	34,578,491
Lottery Funds - Carryover		291,901	7,895	4,606,233

Total	5,400,191	18,078,249	50,662,700	39,184,724
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 Fund allocations. The budget for this program increased by $16.8 million 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. However, since $64.7 million of infrastructure and Columbia Channel deepening bonding authority from the 2001-03 biennium was deferred until late in the 2003-05 biennium, and an additional $4 million in bonding authority was authorized for small ports, the debt service for 2005-07 is expected to increase by an additional $14.4 million. The actual debt service cost is contingent on several factors, including fluctuations in the interest rate charged for bonds and whether or not the taxable bonds are sold.

Legislatively Adopted Budget

The legislatively adopted budget funded the program at the level necessary to meet debt service requirements in the 2003-05 biennium.

OECDD – Oregon Progress Board

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,940,248	1,946,632	3,627,976	3,426,181
Other Funds	66,214,872	102,006,689	115,847,374	108,175,341
Federal Funds	137,350,242	268,631,222	260,057,254	254,554,101
Nonlimited	995,332,165	1,339,076,011	1,467,463,000	1,838,668,224
Total	**1,202,837,527**	**1,711,660,554**	**1,846,995,604**	**2,204,823,847**
FTE	1412.98	1451.57	1400.12	1403.12

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.
- Develop the Workforce/Promote Employment offers job placement and career development resources.
- Child Care promotes and regulates the child care industry.
- Hearing Officer Panel (now Office of Administrative Hearings) 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), authorized under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, to assist low-income families, families receiving temporary public assistance, and those transitioning from public assistance in obtaining child care so they can work or attend education/training. 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 JOBS Plus Unemployment Fund, authorized by HB 3441 (2001), was created through a diversion of UI taxes over a four-year period to support subsidized employment opportunities for UI clients. 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 OED'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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,330,191	11,164,156	23,730,111	19,873,851
Federal Funds	85,675,652	108,523,108	102,051,197	98,794,684
Nonlimited	995,332,165	1,339,076,011	1,467,463,000	1,838,668,224
Total	**1,082,338,008**	**1,458,763,275**	**1,593,244,308**	**1,957,336,759**
FTE	647.91	645.76	626.51	632.51

Program Description

This 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 employment. The program offers employment assessment and reemployment intervention assistance, along with identifying available programs for dislocated workers. Staff makes eligibility determinations, enforces UI laws, collects employer payroll taxes, and manages the Trust Fund. 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 83% of the Support the Unemployed program budget. Revenue from SEDAF supports the remainder of the program. Payments of unemployment benefits to claimants are nonlimited and are paid from employer unemployment taxes.

Budget Environment

Federal funding allocated for the UI system has not been sufficient to meet the full cost of administration for many years. As a result, the Support the Unemployed program is increasingly reliant on Other Funds revenue. 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 telephone and allows for easier claim processing, faster payment, and automated tax reporting.

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 UI 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.

Legislatively Adopted Budget

The legislatively adopted budget for the Support the Unemployed program of $1.98 billion total funds is 34.2% above the 2001-03 legislatively approved budget. The total program budget includes $1.8 billion nonlimited Other Funds, representing unemployment benefits to qualified applicants who are out of work and actively seeking work. Excluding the nonlimited portion of the budget, the adopted budget for the Support the Unemployed program is $118.7 million total funds, approximately 1% less than the 2001-03 legislatively approved budget. The adopted budget supports a total of 632.51 FTE.

The adopted budget includes the following actions:
- restores federal funding for 7.0 FTE eliminated in the Governor's budget for mandated caseload and increases nonlimited funds by $371 million to support increased UI workload based on new projections of UI benefit payments;
- shifts funding for 52.0 FTE to Other Funds from Federal Funds to offset reductions in UI revenue;
- establishes 3 limited duration positions to increase fraud control efforts and UI recoveries;
- eliminates one vacant clerical position; and
- makes standard technical adjustments for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

The budget also included Other Funds expenditure limitation in the amount of $4.0 million from Reed Act funds to expand the implementation of the Telephone Initial Claims Call Centers to enable eligible UI recipients to receive information and apply for benefits via the Internet, telephone, mail, or in-person. The limitation was approved, with the understanding that it would be unscheduled by the Department of Administrative Services until a plan on the development and implementation of the call centers is presented to the Joint Legislative Committee on Information Management and Technology and the Emergency Board.

OED – Promote Employment/Develop the Workforce

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	49,403,746	66,060,703	69,446,789	66,770,006
Federal Funds	36,264,941	35,753,533	40,587,360	38,672,033
Total	**85,668,687**	**101,814,236**	**110,034,149**	**105,442,039**
FTE	575.98	601.80	579.31	578.31

Program Description

This 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. Job seekers and employers can access employment information via kiosks in 154 locations, including retail stores, libraries and government offices, and through interactive job services on OED's website. Specialized placement services are provided for targeted groups such as welfare clients, migrant farm workers, veterans, dislocated workers, ex-offenders, homeless individuals, youth, and disadvantaged workers.

Revenue Sources and Relationships

The Promote Employment/Develop the Workforce programs are funded primarily through federal Wagner-Peyser funds, SEDAF, federal Reed Act, 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 OED, the Department of Human Services, the Department of Education, and the Department of Community Colleges and Workforce Development.

Budget Environment

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. House Bill 2148 (2003) authorizes the transfer of account balances from SEDAF ($15 million), the Special Administrative Fund ($5.5 million), and the JOBS Plus Unemployment Wage Fund ($2.5 million) to the General Fund to support statewide budget balancing efforts. Reed Act funds were approved to replace the transfers from SEDAF and the Special Administrative Fund. As other resources were not identified to replace the transferred funds for JOBS Plus, OED may not be able to maintain its job placement targets.

Legislatively Adopted Budget

The legislatively adopted budget for the Develop Workforce/Promote Employment program of $105.4 million total funds is 3.6% above the 2001-03 legislatively approved budget. The adopted budget supports 578.31 FTE, a decline of 23.49 FTE from the 2001-03 approved level. The adopted budget includes the establishment of 26 limited duration positions to be used to respond to grants and contracts as sufficient workload and funding becomes available. One vacant manager position in the program was eliminated. The budget also includes standard technical adjustments for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

OED – Child Care

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,940,248	1,946,632	3,627,976	3,426,181
Other Funds	839,145	2,450,348	708,720	653,375
Federal Funds	15,409,649	124,354,581	117,418,697	117,087,384
Total	**20,189,042**	**128,751,561**	**121,755,393**	**121,166,940**
FTE	53.88	65.88	68.88	68.88

Program Description

The Child Care Division ensures that families have access to child care information and services, 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 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 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 drive the need for an accessible, affordable, high quality child care system. 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 the 2002 special sessions. This amount equals 54.5% of the total General Fund allocated to the Division. The Department was directed to replace $1.8 million of this reduction with funds from the Special Administration Fund.

Legislatively Adopted Budget

The legislatively adopted budget for the Child Care program of $121.2 million total funds is 5.9% less than the 2001-03 legislatively approved budget. The reduction is primarily due to fewer federal dollars available from the CCDF. Although the General Fund support of $3.4 million in the adopted budget represents a restoration from the reduced 2001-03 level of $1.9 million resulting from 2002 special session actions to rebalance the statewide budget, the adopted budget did include a reduction of $405,000 General Fund that will reduce the level of payments to the Child Care Resource and Referral Network. The budget supports a total of 68.88 FTE. No new programs or enhancements to existing programs are included. The legislatively adopted budget also included the standard technical adjustments for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

OED – Hearing Officer Panel (Office of Administrative Hearings)

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	14,641,790	22,331,482	21,961,754	20,878,109
FTE	135.21	138.13	125.42	123.42

Program Description

In response to concerns about fair and impartial contested case hearings, the 1999 Legislative Assembly passed HB 2525, which established a 4-year pilot hearing panel. The bill transferred hearing officers and related positions from OED, 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 Hearing Officer Panel. The Panel conducts contested case proceedings and may perform other services relating to dispute resolution. House Bill 2526 (2003) repealed the sunset provision for the Panel and changed the name to the Office of Administrative Hearings.

Revenue Sources and Relationships

Agencies that utilize the Office's services are charged based on actual and reasonable costs for conducting hearings. Estimated revenue for 2003-05 totals $22.4 million. However, 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 were provided in 2001-03.

Budget Environment

The Office of Administrative Hearings is working to streamline and simplify services to customer agencies. One of the Office'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.

Legislatively Adopted Budget

The legislatively adopted budget for the Office of Administrative Hearings of $20.9 million Other Funds is 6.5% less than the 2001-03 legislatively approved budget. The reduction is due primarily to the elimination of excess expenditure limitation based on the lower 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. The adopted budget eliminated two vacant positions and incorporated the standard technical adjustments for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

Oregon State Fair and Exposition Center (Fair) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,298,934	1,328,779	1,363,562	1,294,260
Lottery Funds	256,337	2,611,346	4,444,659	3,706,262
Lottery Funds - Carryover	0	0	0	11,999
Other Funds	21,895,885	20,515,580	12,107,921	11,674,776
Nonlimited	1,397,985	1,311,128	1,219,565	1,219,565
Total	**24,849,141**	**25,766,833**	**19,135,707**	**17,906,862**
FTE	32.19	33.05	37.18	37.18

The Oregon State Fair and Exposition Center conducts an annual state fair that lasts 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 $11.6 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.

Legislatively Adopted

The 2003 Legislature approved a budget of $17.9 million total funds, a 6.4% decrease from the Governor's budget, and 37.18 full-time equivalent positions. Also approved were policy packages providing additional resources to support a new facility, increased security, and temporary services contracts.

Budget adjustments include the following:

- elimination of a 3.5% inflation factor originally built into the budget for most services and supplies, capital outlay, and special payment line items (inflationary increases for Attorney General fees and state government service charges are retained);
- elimination of projected employee merit increases scheduled to occur after July 1, 2003, and certain cost-of-living adjustments;
- reduction to reflect an Attorney General rate change, which reduced the charge to agencies from $109 to $98 per hour;
- reduction to reflect the Department of Administrative Services budget, decreased liability charges, and lower toll-free telephone rates;
- reduction in the PERS rate;
- reduction in the Secretary of State assessment rate; and
- reduction in Lottery Funds debt service requirements based on savings in the cost of borrowing the funds.

Fair – Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,298,934	1,328,779	1,363,562	1,294,260
Other Funds	10,258,956	10,515,580	12,107,921	11,674,776
Total	**11,557,890**	**11,844,359**	**13,471,483**	**12,969,036**
FTE	32.19	33.05	37.18	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 2003-05 biennium, the Fair is expected to receive $12.9 million 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 $1.5 million from the $11.4 million projected for 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 $163,673 net General Fund and $559,842 Lottery Funds based on special session actions during the interim. 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. State Fair attendance in 2003 increased 0.4% from the 2002 Fair.

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. Until the 1999-01 biennium, the Fair had not historically received an operating subsidy, and would need to charge higher event rates to turn a profit. Also, the deteriorating condition of facilities affected 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 $1,328,779 by 2002 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.

Legislatively Adopted Budget

The Legislature approved a budget of $1,294, 260 General Fund, $11,674,776 Other Funds, and 37.18 full-time equivalent positions for Fair Operations. The 2003 Legislature directed the Fair to report its budget in the separate units of Operations and Debt Service.

The 2003 Legislature approved policy packages in the adopted budget for Pavilion startup costs and Exposition support. The Pavilion startup package provides $1,087,126 Other Funds expenditure limitation and eight positions (4.31 FTE) to support the Multipurpose Pavilion, slated to open in Fall 2004. The package is necessary to support advanced marketing of the facility to ensure that events can occur once the Pavilion is constructed. The Exposition support package, which was included in the Governor's budget, supports increased security contracts, contracted temporary labor, and utility costs. Included in the package is one permanent position to directly support exposition clients with event set-up, teardown, and miscellaneous services.

Fair – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	256,337	2,611,346	4,444,659	3,706,262
Lottery Funds - Carryover				11,999
Nonlimited	1,397,985	1,311,128	1,219,565	1,219,565
Total	**1,654,322**	**3,922,474**	**5,664,224**	**4,937,826**
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 2002 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.

Legislatively Adopted Budget

To capture all agency debt service expenditures in one program unit, the Legislature approved technical adjustments that moves Lottery Funds Debt Service from the Operations unit to a new unit entitled Debt Service. The change also moves Nonlimited Other Funds Debt Service into the new unit. Lottery Funds Debt Service was reduced by $738,397 based on the latest estimate for projected debt service costs in 2003-05. The Department of Administrative Services will adjust the allocation of Lottery Funds to reflect any differential in excess of the budgeted amount and the exact amount. Proceeds from the 2003 lottery-backed bond sale, which was approved during the last regular legislative session, support construction of the Multipurpose Pavilion.

Fair – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	11,636,929	10,000,000	0	0
Total	**11,636,929**	**10,000,000**	**0**	**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 $21.6 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.

Legislatively Adopted Budget

No additional capital construction projects a the Fair were approved by the 2003 Legislature.

Oregon Historical Society – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,264,450	1,257,467	1,301,478	0
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.

Legislatively Adopted Budget

Because of budgetary constraints, the Legislature provided no funding for the Oregon Historical Society.

Housing and Community Services Department – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	16,142,879	7,163,666	12,728,518	9,794,031
Lottery Funds	0	2,164,495	5,714,677	4,432,311
Other Funds	33,409,639	92,840,504	96,967,293	87,215,711
Federal Funds	71,032,405	105,113,695	106,037,908	103,404,381
Nonlimited - Other	1,104,145,593	599,861,599	1,070,121,963	1,070,115,287
Nonlimited - Federal	60,035,725	153,000,000	94,117,000	94,117,000
Total	**1,284,766,241**	**960,143,959**	**1,385,687,359**	**1,369,078,721**
FTE	122.94	141.49	152.34	148.34

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 85% 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 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 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. In 2003, the Legislature transferred $5.5 million from the Trust Fund to the General Fund to help with statewide budget balancing efforts. The Legislature intends to rebuild the Trust Fund over the next several biennia by using interest earnings from the Community Incentive Fund. 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 Oregon Livability Initiative, passed in 1999, created the Community Incentive Fund, funded through the issuance of Lottery Revenue 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 in unallocated interest earnings from the Housing Trust Fund and $3 million of unrestricted cash reserves to replace the General Fund reduction.

Legislatively Adopted Budget

The 2003-05 legislatively adopted limited budget of $204.8 million includes $9.8 million General Fund, $4.4 million Lottery Funds, $87.2 million Other Funds, and $103.4 million Federal Funds. Although the limited adopted budget is approximately 1.2% lower than the 2001-03 legislatively approved budget, General Fund support increased by nearly 37% from the post-2002 special session actions by adding approximately $2.6 million to the 2001-03 approved level. The 2003-05 budget also includes $94.1 million of nonlimited Federal Funds and $1.1 billion of nonlimited Other Funds. The adopted budget supports 148.34 FTE.

In addition to making the standard technical adjustments for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies, the 2003-05 legislatively adopted budget:

- partially restores General Fund reductions for the Emergency Housing Assistance and the Housing Development and Guarantee Account taken during the 2002 special sessions;
- eliminates one vacant position;
- transfers $5.5 million to the General Fund from the Housing Trust Fund;
- eliminates General Fund support for the Commission for Voluntary Action and Services and for Community Development Corporations;
- reduces $1.7 million General Fund and $2.7 million Other Funds from the Housing Development and Guarantee Account and $820,000 General Fund from the Emergency Housing Account;
- reduces Lottery Fund debt service by $730,000 due to a lower level of bond issuance than anticipated;
- decreases the Other Funds expenditure limitation by $5.5 million in the Community Incentive Fund;
- increases the Other Funds expenditure limitation by $910,000 and establishes four limited duration positions (2.5 FTE) for the Housing Opportunities for People with AIDS program;
- increases the Other Funds expenditure limitation by $1.6 million for the Department to relocate its offices to the new North Mall state office building;
- authorizes 18 limited duration positions (17.2 FTE) and increased expenditure limitation to address higher workload in the HOME program, property management and compliance, contract administration services

for the U.S. Department of Housing and Urban Development, and farm worker housing compliance, and to address chronic homelessness;

- 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; and
- authorizes three limited duration positions (3.0 FTE) and Federal Fund expenditure limitation of $24.8 million for distribution to non-governmental agencies for low-income energy assistance, low-income weatherization assistance, homelessness, and AmeriCorps programs.

Oregon Public Broadcasting – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,350,509	2,049,379	3,448,548	0
Other Funds	0	7,000,000	0	0
Total	**3,350,509**	**9,049,379**	**3,448,548**	**0**
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 original 2001-03 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.

Legislatively Adopted Budget

Due to budgetary constraints, the Legislature provided no funding to Oregon Public Broadcasting. However, included in the budget of the Department of Administrative Services is $1.6 million Lottery Funds for debt service on the Lottery bonds that were issued for OPB in 2001.

Oregon Department of Veterans' Affairs (ODVA) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,577,619	2,487,073	2,486,698	2,389,793
Other Funds	29,421,956	39,928,758	39,165,089	37,488,722
Nonlimited	675,439,387	948,798,402	805,581,377	805,581,377
Total	**707,438,962**	**991,214,233**	**847,233,164**	**845,459,892**
FTE	175.00	165.00	147.54	139.00

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	19,453,843	23,458,694	22,329,601	20,751,685
Nonlimited	675,439,387	948,713,402	805,446,377	805,446,377
Total	**694,893,230**	**972,172,096**	**827,775,978**	**826,198,062**
FTE	152.10	142.10	125.64	119.10

Program Description

The Loan Program provides home acquisition and home improvement loans to veterans at favorable interest rates. Since 1945, the Department has made over 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.

Legislatively Adopted Budget

The legislatively adopted budget recognizes the reduction in loan demand. The budget was reduced to reflect the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. The Legislature also eliminated 23 vacant positions (22.25 FTE).

ODVA – Veterans' Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,577,619	2,487,073	2,486,698	2,389,793
Other Funds	498,872	570,627	619,097	554,575
Total	**3,076,491**	**3,057,700**	**3,105,795**	**2,944,368**
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.

Legislatively Adopted Budget

The Legislature made reductions to the budget to reflect the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. The Legislature eliminated two vacant positions (2.0 FTE). The Legislature also provided an additional $100,000 General Fund to restore support to counties for veterans' services activities that had be reduced during the 2002 special sessions.

ODVA – Veterans' Home

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	9,469,241	15,899,437	16,216,391	16,182,462
Nonlimited	0	85,000	135,000	135,000
Total	**9,469,241**	**15,984,437**	**16,351,391**	**16,317,462**
FTE	4.00	4.00	3.00	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.

Legislatively Adopted Budget

The legislatively adopted budget reflects the lower than expected occupancy rates. The Legislature reduced the budget to reflect the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. It also eliminated a Volunteer Program Manager due to insufficient revenues.

NATURAL RESOURCES

Department of Agriculture (ODA) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	23,839,684	17,509,396	20,623,902	11,295,439
Lottery Funds	3,754,646	7,657,512	7,060,152	7,835,034
Other Funds	36,024,863	46,613,808	51,776,944	51,140,076
Federal Funds	2,890,631	8,565,136	5,089,884	4,841,314
Total	**66,509,824**	**80,345,852**	**84,550,882**	**75,111,863**
FTE	423.20	423.00	432.41	382.36

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 400 seasonal employees. The permanent staff is 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.

Legislatively Adopted Budget

The legislatively adopted budget for the Department of Agriculture of $75.1 million total funds is 6.5% below the 2001-03 legislatively approved budget. Two major factors in this decrease were the transfer of $3.1 million in Lottery Funds support for county fairs from the Department of Agriculture to the Department of Administrative Services and the elimination of 102 vacant positions which generated savings of $3.1 million total funds. The adopted budget includes $11.3 million General Fund and $7.8 million Lottery Funds. General Fund was reduced $6.2 million, or 35.5%, from 2001-03 legislatively approved levels. The primary cause of this General Fund decrease was a series of one-time fund shifts of the Department's salmon recovery and habitat protection and restoration activities from General Fund to Measure 66 Lottery Funds and Federal Funds from the Pacific Coastal Salmon Recovery Fund. The 2003-05 adopted budget supports a total of 604 positions and 382.36 FTE.

ODA – Administration and Support Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,206,700	1,067,888	1,496,001	1,213,115
Other Funds	4,900,831	5,228,194	5,985,132	5,699,707
Total	**6,107,531**	**6,296,082**	**7,481,133**	**6,912,822**
FTE	43.04	42.46	43.46	41.00

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.

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.

Legislatively Adopted Budget

The legislatively adopted budget for Administration and Support Services is 9.8% above the 2001-03 legislatively approved budget. The Governor's budget included an increase of $187,476 Other Funds for a new Information Specialist position to support Department-wide information technology projects. The Legislature removed this new position and instead approved $150,000 Other Funds in professional services to purchase work necessary to address some of the Department's information technology needs from contractors. The Legislature also eliminated an Administrative Assistant position for savings of $185,000 General Fund. In addition, the adopted budget includes reductions associated with implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates. The Administration and Support Services budget supports a total of 41 positions (41.0 FTE).

ODA – Food Safety

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	6,237,445	4,573,807	4,762,553	3,918,853
Other Funds	14,753,169	17,744,864	20,446,182	20,375,480
Federal Funds	120,104	310,329	321,137	328,344
Total	**21,110,718**	**22,629,000**	**25,529,872**	**24,622,677**
FTE	136.53	134.41	136.12	128.71

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 16% 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 and other animal disease 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 activities. 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. 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 $0.6 million.

Legislatively Adopted Budget

The legislatively adopted budget is 8.8% above the 2001-03 legislatively approved level. Although the budget increased in total, General Fund expenditures are 14.3% below the 2001-03 legislatively approved level.

The legislatively adopted budget for the Food Safety program area includes the following changes:

- $566,814 General Fund reduction to continue actions taken during special sessions that eliminated a lab services position, reduced funding for routine packaged product weight and/or measurement sampling, and shifting two food safety field positions, a veterinarian position and portions of 18 positions conducting packaged product weight or measurement sampling from General Fund to Other Funds.
- Fund shifts of $250,000 in the Animal Health program and $600,000 in the Food Safety program using Other Funds from program ending balances to replace General Fund support.

- $419,245 General Fund was added to restore Department funding for the federal predator control program, which was eliminated as a consequence of 2002 fifth special session reductions.
- $250,000 General Fund for testing to ensure shellfish are safe for human consumption was replaced with revenue anticipated to be generated by implementation of a shellfish license. The Legislature passed SB 597 which requires any person taking shellfish to have a license beginning January 1, 2004.
- $597,864 Other Funds was added 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 federal contract amounts as Other Funds.
- $166,000 Other Funds was added to reflect a statutory increase in livestock brand fees for brand recording and inspection activities passed by the 2003 Legislature.
- Elimination of 11 vacant positions (7.41 FTE) resulting in savings of $183,607 total funds.
- $136,148 General Fund and $479,770 Other Funds reductions resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General and Department of Administrative Services assessment rates.

ODA – Natural Resources

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	10,389,653	9,496,963	11,807,344	4,005,551
Lottery Funds	3,754,646	4,596,262	3,893,052	7,801,034
Other Funds	7,604,087	12,722,296	13,679,672	15,762,220
Federal Funds	2,732,814	4,473,575	4,705,372	4,449,595
Total	**24,481,200**	**31,289,096**	**34,085,440**	**32,018,400**
FTE	134.69	137.28	143.61	132.45

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 more than one-third 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 and operation of a 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 have also been 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 support 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 in 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 2002 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 which the Department estimated was sufficient to complete development of the system. At its October 2002 meeting, the Emergency Board denied a request for this final installment of $167,882 from the special purpose appropriation. After this denial of funding further PURS development was suspended. The Governor's 2003-05 budget contained no funding to complete the system and the 2003 Legislature ultimately decided to continue suspension of system development during the 2003-05 biennium.

The agency's budget for this policy area was reduced by $2.9 million General Fund based on special session actions during the interim, including partial funding of employee salary and benefit increases. Of this total reduction, $2.3 million General Fund was reduced as part of a one-time fund shift that moved over $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.

Legislatively Adopted Budget

The legislatively adopted budget for the Natural Resource Policy Area totals $32 million, roughly a 2% increase from 2001-03 legislatively approved levels. The adopted budget includes $4 million General Fund, down roughly 58% from the 2001-03 legislatively approved level. This reduction is due primarily to the inclusion of one-time fund shifts of the policy area's salmon recovery and habitat protection and restoration activities from General Fund to Measure 66 Lottery Funds and Federal Funds from the Pacific Coastal Salmon Recovery Fund. The adopted budget supports 173 positions and 132.45 FTE in the Natural Resource Policy Area.

The legislatively adopted budget for the Natural Resource Policy Area includes several program reductions, enhancements, and fund shifts.

- $1.2 million General Fund was 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.
- A one-time shift of $3.4 million General Fund support for development and implementation of agricultural water quality management plans (SB 1010) to Measure 66 Lottery Funds.
- $1.7 million General Fund and $1.4 million Measure 66 Lottery Funds passed through to support Soil and Water Conservation Districts was shifted to federal monies from the Pacific Coastal Salmon Recovery Fund on a one-time basis.
- $1.3 million General Fund for control and eradication of pest species which are harmful to wildlife habitat was shifted to Measure 66 capital Lottery Funds.
- Eliminated 27 vacant positions (10.74 FTE) generating savings of $711,362 General Fund, $287,387 Other Funds, and $133,525 Federal Funds. Six of the vacant positions (6.0 FTE) were in the PURS program. These positions were initially created to operate the system once it was completed; however with the decision during the 2001-03 interim to suspend completion of PURS, the positions remained vacant. The 2003 Legislature decided to continue to defer completion of PURS during 2003-05 due to the statewide revenue shortfall. This decision led to the elimination of the 6 vacant positions.
- $31,909 General Fund and $190,539 Other Funds of services and supplies expenditures for PURS was eliminated as a result of the Legislature's decision to suspend completion of PURS during the 2003-05 biennium. The elimination of 6 vacant positions and the services and supplies reductions leave one position in the PURS program to work with the pesticide user community.
- $176,411 General Fund, $239,613 Other Funds, and $24,618 Federal Funds reductions resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General and Department of Administrative Services assessment rates
- $780,539 Federal Funds and $231,758 Other Funds were added to respond to Sudden Oak Death disease. This funding will 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 will 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 was 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 was added from fertilizer fees to provide special payments for research and development involving fertilizer contamination of ground and/or surface water. These research grants are intended to support the work of the Fertilizer Research Committee, which was established in HB 3815

(2001). The grants are to be supported using a tonnage tax that is paid on the registration and sale of fertilizers.

ODA – Agricultural Development

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,365,594	2,060,702	2,558,004	2,157,920
Other Funds	8,338,363	10,326,439	11,021,103	9,050,562
Federal Funds	17,963	3,781,232	63,375	63,375
Total	**10,721,920**	**16,190,373**	**13,642,482**	**11,271,857**
FTE	106.52	104.80	104.80	80.20

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 the minimal General Fund support of licensed grain warehouses inspections was eliminated.

Legislatively Adopted Budget

The legislatively adopted budget of $11.3 million is 30.4% below the 2001-03 legislatively approved budget. This decrease is due largely to the phasing-out of a one-time $3.7 million federal Specialty Crops grant and the elimination of vacant positions. The 2003-05 adopted budget supports 197 positions and 80.20 FTE. The budget was reduced $139,237 General Fund by elimination of a position in the Agricultural Development and Marketing Division. The budget adds $85,977 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 were added to implement the Good Agricultural Practices (GAP)/Good Handling Practices (GHP) and Identity Preserved (IP) 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. The budget also includes reductions resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General and Department of Administrative Services assessment rates. Sixty-two vacant positions (24.60 FTE) were eliminated, creating savings of $144,650 General Fund and $1,629,798 Other Funds.

ODA – Special Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,360,579	155,605	0	0
Lottery Funds	0	3,061,250	3,167,100	34,000
Other Funds	374,611	592,015	644,855	252,107
Federal Funds	19,750	0	0	0
Total	**3,754,940**	**3,808,870**	**3,811,955**	**286,107**
FTE	2.42	4.05	4.42	0.00

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 (2001). 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 was 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 Oregon Wine Advisory Board seeks 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 General Fund. To manage this reduction, funding for the Pesticide Analytical Response Center (PARC) program was eliminated.

Legislatively Adopted Budget

The legislatively adopted budget continues termination of funding for the PARC program, resulting in savings of $236,730 General Fund and $130,489 Other Funds. The Governor's budget included $3,167,100 Lottery Funds for county fairs in the Special Programs budget. The 2003 Legislature reduced this amount to $2,564,173 and transferred the funding to the Department of Administrative Services (DAS) for pass-through to county fairs. The Legislature determined that county fair funding would be better placed in the DAS budget since most other state Lottery pass-through funding resides in the DAS budget. The Department of Agriculture retained $34,000 Lottery Funds for the operational expenses of the County Fair Commission. The adopted budget also implements HB 3442 which abolished the Oregon Wine Advisory Board and created a new Oregon Wine Board as a semi-independent agency. The adopted budget reflects a reduction of $495,675 Other Funds and 5 positions (4.42 FTE) due to the abolishment of the old Wine Advisory Board and moving the new Board's expenditures and positions off budget to reflect its semi-independent status.

ODA – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	279,713	154,431	0	0
Other Funds	53,802	0	0	0
Total	**333,515**	**154,431**	**0**	**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 2001 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.

Legislative Adopted 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	**666,061**	**692,498**	**748,316**	**631,600**
FTE	0.00	0.00	0.00	0.00

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, and support interagency projects and problem solving.

According to the Commission, base funding levels for Commission activities represent the most limiting factor affecting fulfillment of key strategies. Oregon and Washington frequently fund at a different level. This significantly impacts the Commission because any reduction in one state's funding of the joint expenses program will reduce the other state's contribution by the same amount. While Washington budgets biennially, they allot annually. Unspent funds do not carry over from one fiscal year to another.

The 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	**637,234**	**670,838**	**726,373**	**609,940**
FTE	0.00	0.00	0.00	0.00

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.

Legislatively Adopted Budget

The legislatively adopted budget for the Commission's joint program activities is $609,940. The budget represents a decrease of $166,433 General Fund or 16% from the Governor's recommended expenditure level. The Legislature approved partial restoration of reductions taken during the 2002 fifth special session for assistance to counties and dispute resolution services, but eliminated resources that would have funded the plan review project, the public information program, and geographic information systems development. Reductions for statewide decreases in inflation, the cost of merit increases, and Department of Administrative Services assessments totaled $126,746.

The Legislature approved a special purpose appropriation of $50,000 General Fund to the Emergency Board with instructions for the Commission to request $20,000 of the funds once a work plan and schedule is developed. The plan must address permit processing timelines, adjudication processes, and timelines; revising guidelines addressing the definition of visual subordinate finishes, colors, and reflectivity of surfaces; and implementing a fee schedule to recover operational expenses from Klickitat County in Washington for failure to adopt ordinances to implement the National Scenic Area Act. The balance of the funds may be requested when substantial progress is made in completing the work plan.

CRGC – Oregon Commissioner Expenses

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	**28,827**	**21,660**	**21,943**	**21,660**
FTE	0.00	0.00	0.00	0.00

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.

Legislatively Adopted Budget

The legislatively adopted budget funds commissioner expenses at $283 less than the Governor's recommended budget but equal to the 2001-03 legislatively approved level. The Legislature removed $283 in inflation for services and supplies from the Governor's recommended budget.

Office of Energy (OOE) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,425,000	857,374	0	0
Other Funds	11,245,202	15,227,667	16,979,264	15,709,330
Federal Funds	4,897,050	7,139,629	7,495,674	6,302,370
Nonlimited	112,765,266	142,638,525	152,439,524	152,418,142
Total	**130,332,518**	**165,863,195**	**176,914,462**	**174,429,842**
FTE	77.55	77.94	82.77	82.49

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 2003 Legislative Assembly passed SB 478, which renames the agency as the State Department of Energy, effective January 1, 2004.

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. Effective January 1, 2004, the Board is renamed the Hanford Cleanup Board.

OOE – Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,425,000	857,374	0	0
Other Funds	11,245,202	15,227,667	16,979,264	15,709,330
Federal Funds	4,897,050	7,139,629	7,495,674	6,302,370
Total	**17,567,252**	**23,224,670**	**24,474,938**	**22,011,700**
FTE	77.55	77.94	82.77	82.49

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 (about 28%) is energy supplier assessments. 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 about $6.8 million in 2003-05 from $4.4 million in 2001-03. The growth is expected primarily in funds for oversight of the hazardous waste cleanup of the Hanford nuclear site (a $0.5 million 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 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 and damage caused by the February 1996 flood and most recently to 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 $857,374 during the 2001-03 biennium as part of the rebalance of the statewide General Fund budget. Due to limited state resources for 2003-05, no state support was provided by the 2003 Legislature for OMSI's debt service.

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.

Legislatively Adopted Budget

The legislatively adopted budget is a 10.1% decrease from the Governor's budget and a 5.2% decrease from the 2001-03 legislatively approved level. The Legislature reduced the agency's budget by $1.6 million ($0.6 million Other Funds and $1 million Federal Funds) to align it with historical and projected expenditure patterns. It also adjusted the budget for a lower PERS employer contribution rate, the salary freeze for state employees, elimination of three vacant positions, reduced salaries for remaining vacant positions, elimination of the inflation allowance, and reduced interagency service charges.

The Legislature approved a policy package that continues 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. Three of the positions were approved as permanent and three as limited duration. Additionally, an existing Compliance Specialist 3 position was increased 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 include funding to cover loan payments due from OMSI. Without state support or an increase in its operating revenues, it is likely OMSI will continue to have difficulty making the $1.14 million annual payments.

OOE – Loan Programs (Nonlimited)

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	112,765,266	142,638,525	152,439,524	152,418,142
Total	**112,765,266**	**142,638,525**	**152,439,524**	**152,418,142**
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 had 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.

Legislatively Adopted Budget

The legislatively adopted 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	38,688,564	35,919,721	33,175,693	23,384,838
Lottery Funds	456,155	2,455,623	1,789,995	3,286,418
Other Funds	100,316,829	113,547,199	115,978,166	111,499,351
Federal Funds	25,940,544	38,488,520	38,761,389	38,346,912
Nonlimited	136,917,601	116,169,725	84,184,325	98,739,078
Total	**302,319,693**	**306,580,815**	**273,889,568**	**277,349,034**
FTE	783.55	835.59	821.19	812.95

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 enforce the standards when necessary. The agency attempts to use technical assistance and education whenever possible to enhance compliance. The Department also manages the federally delegated Clean Air, Clean Water, and Resource Conservation and Recovery Act programs. In addition to the federal environmental programs, DEQ administers the state environmental programs in the areas of solid waste management, planning and recycling, groundwater protection, and environmental cleanup. The agency is comprised of four major program units: Air Quality, Water Quality, Land Quality, and Agency Management. A fifth program unit, Cross-Media, was added to address issues that cross the agency's traditional program lines. 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Department of $277.3 million total funds represents a 9.5% decrease from the 2001-03 legislatively approved budget. The operating portion of the budget includes $23.4 million General Fund, $3.3 million Measure 66 Lottery Funds, $111.5 million Other Funds, and $38.3 million Federal Funds. The operating budget total of $176.5 million represents a 7.3% decrease from the 2001-03 legislatively approved budget. The operating budget total does not include $98.7 million in Nonlimited Other Funds expenditures for bond proceeds used in various environmental cleanup programs, the state's revolving loan fund for wastewater facility development, and loans to local governments. The $98.7 million in Nonlimited Other Funds expenditures represents a 15% decrease from the 2001-03 legislatively approved budget and is the largest single factor in the 2003-05 approved budget being 9.5% lower than 2001-03 approved levels. The General Fund portion of the budget is 34.9% less than the 2001-03 legislatively approved budget. The budget eliminates a total of 22.64 FTE from the 2001-03 legislatively approved budget, with the majority of this reduction being taken in the Water Quality Division.

DEQ – Air Quality Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,942,771	4,132,030	4,603,139	4,058,292
Other Funds	28,038,051	34,194,981	35,963,550	34,393,244
Federal Funds	4,980,189	6,660,858	6,639,904	6,437,798
Total	**38,961,011**	**44,987,869**	**47,206,593**	**44,889,334**
FTE	215.75	283.51	277.96	275.42

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 a vehicle's 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 eliminating positions in the Green Permits and Open Burning programs.

Legislatively Adopted Budget

The Air Quality Division's legislatively adopted budget of $44.9 million is virtually the same as the 2001-03 legislatively approved budget. The adopted General Fund budget of $4.1 million is down slightly from the 2001-03 legislatively approved budget. The adopted budget continues positions in the ACDP program funded by a fee increase approved in the 2001-03 legislatively adopted budget and implemented during the interim. With implementation of this fee increase, the ACDP program is 85% funded with permit fees. The Air Quality Division budget supports a total of 280 positions and 275.42 FTE.

The 2003-05 legislatively adopted budget for the Air Quality Division includes the following additional changes:

- $818,808 General Fund was 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.
- $210,335 General Fund and 2 positions (1.48 FTE) were reduced to reflect the roll-up savings from reductions to the open burning made during the 2002 third special session that was not included in the Governor's budget.
- $242,172 General Fund was added to cover a lease rate 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 expired 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 were approved and are contained in the adopted budget for the Department of Administrative Services.
- $75,284 General Fund and $610,161 Other Funds reduction resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates.
- $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. All retained positions are funded by existing Vehicle Inspection fees.
- $1,261,636 Federal Funds were added 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 approved budget makes the remaining 4 positions permanent. The budget also adds 4 additional limited-duration positions (3.5 FTE) funded by a shift in federal funding from competitive awards to the air quality EPA base grant.

DEQ – Water Quality Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	17,694,558	16,611,940	17,827,688	11,464,134
Lottery Funds	354,970	2,455,623	0	3,286,418
Other Funds	13,730,168	15,314,533	15,767,822	16,385,983
Federal Funds	11,840,283	15,808,074	14,796,806	14,467,843
Total	**43,619,979**	**50,190,169**	**48,392,316**	**45,604,378**
FTE	228.85	214.45	213.28	207.15

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 $1.9 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.

Legislatively Adopted Budget

The legislatively approved budget of $45.6 million is 9.1% below the 2001-03 legislatively approved budget. The 2003-05 adopted budget includes $14.8 million General and Lottery Funds, a decrease of 22.6% from the 2001-03 legislatively approved budget. The 2003-05 approved 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, implemented through administrative rule during the 2001-03 interim, and ratified by the 2003 Legislature. The budget supports a total of 219 positions and 207.15 FTE.

The 2003-05 legislatively adopted budget for the Water Quality Division includes the following changes:

- $3,365,104 General Fund was reduced to continue HB 5100 budget reductions that eliminate the portion of a Cross-Media 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) were eliminated as a result of these actions.
- A one-time shift of $3,375,000 General Fund included in the Governor's budget for development of TMDLs to Measure 66 Lottery Funds, making the General Fund available for the statewide budget plan.
- A one-time shift of $992,182 General Fund included in the Governor's budget for monitoring activities associated with the Oregon Plan for Salmon and Watersheds to federal monies from the Pacific Coastal Salmon Recovery Fund.
- $405,429 General Fund and 2 positions (2.0 FTE) were reduced to reflect the roll-up savings from elimination of a non-point source pollution coordinator position and a TMDL development position made during the 2002 third special session which were not included in the Governor's budget.
- $352,568 General Fund and 2 positions (2.0 FTE) for the Environmental Partnership for Oregon Communities (EPOC) program were eliminated and the funding used to support positions in the Cross Media program assigned to work with the Governor's Economic Revitalization Team (formerly the Community Solutions Team) on coordination of economic development proposals. These positions are also expected to continue work associated with the EPOC program.
- $101,280 General Fund and $198,720 Lottery Funds were 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.
- $265,786 General Fund, $214,822 Other Funds, and $70,005 Federal Funds reductions resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates.
- $288,942 General Fund was added to cover a lease rate 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 expired 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 were approved and are contained in the adopted budget for the Department of Administrative Services.

- $387,071 Other Funds was 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. The Other Funds are from the Pacific Coastal Salmon Recovery Fund.
- Eliminated 3 vacant positions (2.13 FTE) resulting in $141,111 General Fund and $9,246 Other Funds savings.
- $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.
- $376,999 Other Funds was added to continue implementation of new federal NPDES Storm Water Phase 2 requirements. The funding continues 3 limited-duration positions (2.5 FTE). 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 was added to assist with the implementation of completed TMDLs. These positions are assigned to regional offices.
- $941,220 Federal Funds was added to continue the La Pine National Decentralized Wastewater Treatment Project. The federal funding from EPA continues 6 limited duration positions (5.5 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,419,964	1,464,062	1,715,595	1,202,809
Lottery Funds	101,185	0	0	0
Other Funds	41,580,452	45,475,123	43,546,283	41,127,945
Federal Funds	8,665,456	15,356,211	16,532,689	16,655,455
Total	**53,767,057**	**62,295,396**	**61,794,567**	**57,986,209**
FTE	248.97	247.15	244.02	242.14

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; however no General Fund was appropriated by the 2003 Legislature due to the statewide revenue shortfall.

The Division's 2001-03 budget was reduced by $0.7 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 and suspend development of a hazardous waste information system. Permanent reductions included eliminating funding for a Green Permits coordinator, reducing support of cleanup and spill response, and eliminating some technical assistance and outreach funding.

Legislatively Adopted Budget

The legislatively adopted budget for the Land Quality Division is $58 million, a 6.9% decrease from the 2001-03 legislatively approved level. The approved budget includes fee increases to support continued program activities in the Hazardous Waste program, which saw a significant reduction in revenue during the 2001-03 biennium. Failure to replace this lost revenue would have reduced the Hazardous Waste program's ability to provide technical assistance, inspections, compliance, and analysis. The approved increase will not provide sufficient revenue to replace all the revenue reduction seen during the 2001-03 biennium. Neither the Governor's budget nor the legislatively adopted budget included any bond sale proceeds in the Land Quality Division to continue cleanup work on high priority industrial orphan sites. The Land Quality Division budget supports a total of 247 positions and 242.14 FTE.

The 2003-05 legislatively adopted 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-Media 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.

- $432,461 General Fund for technical assistance in the clean-up program was shifted to federal funds from brownfields grants.
- $15,838 General Fund, $921,942 Other Funds, and $61,350 Federal Funds reductions resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates.
- Eliminated 2 vacant positions (1.88 FTE) resulting in $321,359 Other Funds savings.
- $72,958 General Fund was added to cover a lease rate 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 expired 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 were approved and are contained in the adopted 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 positions (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.
- $203,505 Federal Funds were added for 2 limited-duration positions (2.0 FTE), an inspector and an administrative law specialist, to oversee the destruction of chemical weapons stored at the U.S. 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. Federal funding for these limited-duration positions will come from the U.S. Department of Defense.

DEQ – Cross Media

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	164,660	734,913	92,559	687,149
Other Funds	586,399	798,974	704,662	673,074
Federal Funds	454,616	663,377	785,816	785,816
Total	**1,205,675**	**2,197,264**	**1,589,211**	**2,146,039**
FTE	12.42	6.17	3.65	7.32

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. Creation of a separate program enables 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. The 2003 Legislature reconstituted this effort as the Governor's Economic Revitalization Teams.

Revenue Sources and Relationships

The 2001 Legislature included General Fund in the Cross Media program to support 4 limited duration positions to work with the Community Solutions Team. Other Funds from pollution control tax credit fees provide funding 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 $148,210 General Fund based on special session actions. These savings were realized by eliminated three limited duration positions responsible for work related to the Community Solutions Team and reducing FTE on the remaining position.

Legislatively Adopted Budget

The legislatively adopted budget for the Cross Media Program of $2.1 million is 2.3% below the 2001-03 legislatively approved budget. The Cross Media budget supports 9 positions (7.32 FTE). The Governor's budget did not restore the limited-duration General Fund positions established in 2001-03 for the agency's participation in Community Solutions Teams that were eliminated during special sessions. The 2003 Legislature added $617,091 General Fund to restore three positions and added FTE to the fourth position to work with the Governor's Economic Revitalization Team (formerly the Community Solutions Team) on coordination of economic development proposals. This addition was partially offset by a $352,568 General Fund reduction in the Water Quality program from eliminating positions in the Environmental Partnership for Oregon Communities (EPOC) program. The new Economic Revitalization Team positions are expected to continue work associated with the EPOC program. The adopted budget also added $124,842 Other Funds for an additional position in the Pollution Tax Credit program to address the increasing number of tax credit 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 positions added through a federal grant during the 2001-03 interim to work on improving data reporting to the Environmental Protection Agency through implementation of a nation-wide data sharing network. The budget included reductions for actions associated with implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates.

DEQ – Agency Management

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	287,149	235,731	227,587	227,587
Other Funds	16,381,759	17,763,588	19,995,849	18,919,105
Total	**16,668,908**	**17,999,319**	**20,223,436**	**19,146,692**
FTE	77.56	84.31	82.28	80.92

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 is 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.

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.

Legislatively Adopted Budget

The legislatively adopted budget for Agency Management is $19.1 million, an increase of 6.4% from the 2001-03 legislatively approved budget. The Agency Management budget supports a total of 82 positions and 80.92 FTE. The adopted budget eliminated 2 vacant positions (0.86 FTE) resulting in savings of $64,298 Other Funds. The Legislature did not fund a Facilities Coordinator position (0.50 FTE) that was included in the Governor's budget due to limited resources and uncertainty over the need for a new position to do work already accomplished with existing staff. The budget included $459,861 Other Funds reductions for actions associated with implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General and Department of Administrative Services assessment rates.

DEQ – Pollution Control Bond Fund Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	11,179,462	12,741,045	8,709,125	5,744,867
Lottery Funds	0	0	1,789,995	0
Nonlimited	10,482,900	2,904,938	2,134,438	18,772,867
Total	**21,662,362**	**15,645,983**	**12,633,558**	**24,517,734**
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 statewide revenue shortfall by delaying these bond sales and $1.8 million of the resulting debt service savings were used during 2002 special sessions to address the statewide budget shortfall.

Legislatively Adopted Budget

The legislatively adopted budget funds debt service payments 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. Debt service on CWSRF bonds was reduced $5 million General Fund and $1.8 million Lottery Funds, which was replaced with Other Funds using interest paid on past loans from the CWSRF. Ordinarily interest paid on previous loans is deposited back into the CWSRF and used to make additional loans. Debt service on 2003-05 CWSRF bond sales will also be paid using interest proceeds. No new bond sales were included in the legislatively adopted budget for the Industrial Orphan Site program; therefore all General Fund in this program will be used for debt service on previously issued bonds.

DEQ – Nonlimited

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	126,434,701	113,264,787	82,049,887	79,966,211
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 Clean Water State Revolving Loan 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 statewide budget shortfall. A program to grant loans to local governments for construction of eligible waste water treatment where the amount available from the Clean Water State Revolving Loan Fund (CWSRF) 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 has included 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 adopted budget for 2003-05 payment of debt service on CWSRF bonds uses interest paid on past loans instead of General Fund or Lottery Funds as had been used in past biennia.

Legislatively Adopted Budget

The Governor's recommended budget for the agency's Nonlimited expenditures included authority for $34.9 million in new CWSRF 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 were included in the adopted budget, which accounts for the large reduction from 2001-03 legislatively approved levels.

Department of Fish and Wildlife (ODFW) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	16,719,400	14,441,913	15,854,537	10,650,611
Lottery Funds	5,658,084	9,565,560	9,250,825	10,297,061
Other Funds	82,183,265	93,233,598	97,495,882	111,624,467
Federal Funds	68,990,968	96,636,551	96,379,709	94,932,601
Nonlimited	7,928,450	2,258,015	0	3,000,000
Total	**181,480,167**	**218,135,637**	**218,980,953**	**230,594,822**
FTE	1,003.93	1,096.47	1,105.91	1,099.75

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 three primary divisions: Wildlife, Fish, 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, as well as landowner relationships and access for hunting. The agency's greatest challenge for the 2003-05 budget period was a projected Other Funds revenue base from the sale of fishing and hunting tags and licenses insufficient to continue the anticipated level of agency expenditures. To address this issue, the Department sought and was granted an increase in tag and license fees with the passage of HB 2260. The Department also moved its headquarters from Portland to Salem early in the 2003-05 biennium as a result of legislation passed during the 2001 session.

ODFW – Wildlife Division Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,750,478	1,578,358	1,562,732	1,196,887
Lottery Funds	0	0	0	83,716
Other Funds	20,621,546	23,114,029	24,548,358	25,493,224
Federal Funds	7,888,362	13,494,261	15,239,978	17,766,198
Total	**30,260,386**	**38,186,648**	**41,351,068**	**44,540,025**
FTE	166.80	177.52	192.08	195.05

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 has historically been funded primarily from Other and Federal Funds, except for the Wildlife Diversity program which receives a larger percentage of its budget from the General Fund. 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

National and state trends indicate a declining proportion of the population engaging in hunting activities. Continuation of this trend coupled with difficulties in attaining easy access to traditional hunting locations are likely to result in further erosion of hunting license and tag sales. Projected revenue from the sale of licenses and tags was insufficient to continue the 2001-03 level of Other Funds program expenditures through the 2003-05 biennium, therefore the Legislature approved a fee increase that affected all license and tag fees and is expected to raise almost $10 million of additional revenue during 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 was 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 resulted in 2003-05 savings of $0.6 million General Fund.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Wildlife Division totals $44.5 million, an increase of 16.6% from 2001-03 legislatively approved levels. The adopted budget retains positions and activities that would be have been lost due to a revenue shortfall with the passage of HB 2060 which increased license and tag fees. The budget contains $0.4 million less General Fund than the 2001-03 legislatively approved budget due primarily to reductions created by the statewide salary freeze, elimination of vacant positions, and lower Attorney General rates and Department of Administrative Services assessments. The adopted budget supports 195.05 FTE, an increase of 17.53 FTE from 2001-03 approved levels. This increase was created by establishing new positions funded by moving services and supplies expenditures to personal services to better align activities with correct budget categories, continuation of the federal State Wildlife Grant, and the transfer of 6 positions (5.0 FTE) from the Habitat Division.

ODFW – Wildlife Division/Game

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	669,121	541,655	580,890	318,003
Other Funds	17,399,667	17,882,652	19,061,323	20,407,217
Federal Funds	1,272,086	2,322,795	2,411,490	2,155,825
Total	**19,340,874**	**20,747,102**	**22,053,703**	**22,881,045**
FTE	99.23	103.78	118.03	114.55

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Game program of $22.9 million represents a 10.3% increase from the 2001-03 approved budget. The budget supports 159 positions (114.55 FTE). The budget adds $3,082,027 Other Funds from the license fee increase to continue 20 positions (16.17 FTE) and related services and supplies. The budget also includes a $116,016 General Fund reduction to continue 2002 special session actions that reduced oversight in the wildlife permitting and rehabilitation programs. This reduction is $42,093 more than was proposed by the Governor and better represents the true roll-up savings from special session reductions. The budget also eliminates 9 vacant positions (3.48 FTE), reduces General Fund inflation allowances, implements the statewide salary freeze, and reflects a lower Attorney General rate. The Subcommittee added an inflation allowance of $0.6 million Other Funds to accommodate a dramatic increase in the cost of helicopter usage due to state liability insurance requirements. Other Fund savings of $143,591 from the salary freeze was used to replace General Fund support within the program to make General Fund available to address the state's revenue shortfall.

ODFW – Wildlife Division/Habitat

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	373,189	197,751	107,709	145,860
Other Funds	2,742,890	4,680,973	5,020,086	4,768,664
Federal Funds	5,353,469	9,574,278	11,215,715	12,513,899
Total	**8,469,548**	**14,453,002**	**16,343,510**	**17,428,423**
FTE	56.15	63.32	64.63	67.08

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 was set to sunset at the end of 2003, but the Legislature extended the sunset until 2009. 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Habitat program of $17.4 million represents a 20.6% increase from the 2001-03 legislatively approved budget. This increase is caused primarily by the transfer of $1.8 million and 6 positions from the Habitat Division as part of a Department reorganization that eliminated the separate Habitat Division and transferred its responsibilities to this program and the Fish Division/Natural Production program. Budget reductions included a $233,906 General Fund reduction in landowner assistance programs including the Green Forage and DEAR programs originally reduced in 2002 special sessions and continuation of rebalance actions made in the 2001-03 biennium to better align the Department's budget with program activities. Reductions were also made to reflect the statewide salary freeze, elimination of 4 vacant positions (1.84 FTE), and lower inflation allowance. In addition, the budget was reduced $75,006 General Fund to reflect the true savings of interim reductions to landowner assistance programs that are to be continued into 2003-05. The approved budget supports 71 positions (67.08 FTE), an increase of 3.76 FTE from the 2001-03 legislatively approved level.

ODFW – Wildlife Division/Wildlife Diversity

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	708,168	838,952	874,133	733,024
Lottery Funds	0	0	0	83,716
Other Funds	478,989	550,404	466,949	317,343
Federal Funds	1,262,807	1,597,188	1,612,773	3,096,474
Total	**2,449,964**	**2,986,544**	**2,953,855**	**4,230,557**
FTE	11.42	10.42	9.42	13.42

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Diversity program of $4.2 million represents a 41.7% increase from 2001-03 legislatively approved levels. This increase is caused by the inclusion of $1.6 million Federal Funds and 6 positions to accommodate a federal State Wildlife Grant that was not included in the Governor's budget. One position and $153,509 General Fund were eliminated to continue 2002 special session actions. In addition, 2 vacant positions (2.0 FTE) were eliminated, the inflation allowance was reduced, and savings were taken for the statewide salary freeze. The budget supports 14 positions and 13.42 FTE.

ODFW – Fish Division Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	12,138,371	9,374,323	10,477,302	8,353,009
Lottery Funds	5,658,084	9,460,614	9,129,665	5,088,345
Other Funds	24,528,617	28,747,572	28,301,014	37,313,656
Federal Funds	57,324,172	71,817,896	74,745,821	72,646,600
Total	**99,649,244**	**119,400,405**	**122,653,802**	**123,401,610**
FTE	686.16	770.55	770.11	791.71

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. 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, donations, commercial fishing industry fees, and 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 was insufficient to continue the current level of Department expenditures in the 2003-05 biennium. This revenue shortfall was mitigated by increasing license and tag fees.

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 for Salmon and Watersheds 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 $3.6 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 $3.6 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 reduced ocean fisheries surveys. These reductions result in 2003-05 savings of $4.1 million General Fund.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Fish Division is $123.4 million, an increase of 3.4% from 2001-03 legislatively approved levels. This net increase is due in large part to the transfer of 43 positions (30.09 FTE) and $5.7 million from the Habitat Division to the Natural Production program. The approved budget retains positions and activities that would have been lost due to a revenue shortfall through passage of a license and tag fee increase. The Fish Division budget is $1 million General Fund less than the 2001-03 legislatively approved level. Lottery Funds for Oregon Plan activities are reduced by $4.8 million due to the use of Federal

Funds from the Pacific Coastal Salmon Recovery Fund for monitoring activities in place of Lottery Funds. The budget does include $4 million Lottery Funds for a continuation of the Fish Screening Program. The adopted budget includes $72.6 million Federal Funds, which is $0.8 million more than included in the 2001-03 legislatively approved budget. Over two-thirds of the agency's staff work in the Fish Division. The 2003-05 approved budget funds 997 positions and 791.71 FTE in the Fish Division.

ODFW – Fish Division/Propagation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,014,054	6,562,479	6,120,374	5,574,430
Lottery Funds	0	176,309	0	0
Other Funds	5,761,888	7,189,401	7,458,944	7,501,970
Federal Funds	25,338,851	30,408,859	32,363,341	30,897,251
Total	**38,114,793**	**44,337,048**	**45,942,659**	**43,973,651**
FTE	261.71	264.60	256.27	247.30

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 include 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Propagation program is $44 million, which is almost 1% less than the 2001-03 legislatively approved level. The budget includes $5.6 million General Fund, $7.5 million Other Funds, and $30.9 million Federal Funds. The adopted General Fund budget is $1 million less than the 2001-03 approved budget and represents a 15.1% decrease. The budget supports a total of 276 positions and 247.30 FTE.

The Propagation program's 2003-05 legislatively adopted budget included several 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 using license and tag revenue. This change continues a similar fund shift implemented during the 2002 fifth special session.
- $257,734 General Fund was reduced through the lowering of funding for emergency maintenance needs at nine state-funded hatcheries.
- $150,000 General Fund was reduced due to ending ODFW support for the For Sake of Salmon organization.
- Elimination of 15 vacant positions (8.97 FTE) resulting in $33,440 General Fund, $47,459 Other Funds, and $685,519 Federal Funds savings.
- $2,067,533 Other Funds added from the license fee increase restored 17 positions (15.17 FTE) and related services and supplies which were eliminated in the base budget due to the license revenue shortfall.
- Reduced $707,803 Other Funds to reflect a shift of Attorney General charges to the Interjurisdictional program made to better align the budget with operations.
- $189,960 General Fund and $144,636 Federal Funds savings from reducing inflation allowances and implementation of the statewide salary freeze. The Subcommittee added back $116,924 Other Funds to accommodate an increase in the cost of electricity used to operate hatcheries.

- Added $225,000 Other Funds to continue efforts to restore sport fisheries at Diamond Lake. The agency had originally requested General Fund for this activity, which was not included in the Governor's budget. The Subcommittee used Other Funds savings from the salary freeze and elimination of vacant positions to fund this work.

ODFW – Fish Division/Natural Production

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,500,560	732,096	1,728,603	519,820
Lottery Funds	5,658,084	9,284,305	9,129,665	4,954,944
Other Funds	12,679,216	12,578,508	10,329,228	19,700,052
Federal Funds	21,290,504	28,249,975	28,868,809	28,084,210
Total	**41,128,364**	**50,844,884**	**50,056,305**	**53,259,026**
FTE	304.38	332.58	348.72	381.66

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 funds for the Fish Screening Program in both the 1999-01 and 2001-03 biennia.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Natural Production program is $53.3 million, an increase of 4.8% from the 2001-03 legislatively approved budget. The recommended budget includes $0.5 million General Fund, which is 29% less than the amount approved for the 2001-03 biennium. Over half of the total program funding is derived from Federal Funds. The budget supports a total of 381.66 FTE, an increase of 32.94 FTE from the 2001-03 approved level. This increase in FTE is caused primarily by the transfer of 43 positions from the Habitat Division to the Natural Production program as part of a departmental reorganization that eliminated the separate Habitat Division.

Major funding changes in the legislatively approved budget for the Natural Production program include:

- A reduction of $72,683 General Fund to continue actions taken during 2002 special sessions that eliminated a trout research position and reduced maintenance for fish screens.
- $5.7 million total funds and 43 positions (30.09 FTE) were transferred to the Natural Production program from the Habitat Division as part of a reorganization designed to better integrate habitat related decisions into Fish and Wildlife programs.
- Measure 66 Lottery Funds to support the Fish Screening Program were reduced by $357,194 to $4 million, which is the amount approved for the program in the previous two biennia.
- A one-time shift of $1,190,670 General Fund and $3,750,404 Measure 66 Lottery Funds included in the Governor's budget for salmon monitoring and recovery efforts to federal monies from the Pacific Coastal Salmon Recovery Fund (PCSRF).
- $878,000 from the PCSRF was added to continue the Coastal Salmonid Monitoring program.
- Elimination of 25 vacant positions (18.64 FTE) resulting in $214,248 General Fund, $63,262 Other Funds, and $1,603,204 Federal Funds savings.
- $580,382 Other Funds added from the license fee increase restored 7 positions (7.80 FTE) and related services and supplies which were eliminated in the base budget due to the license and tag revenue shortfall.

- $650,667 Other Funds and 13 limited duration positions (6.32 FTE) were added to accommodate a grant from the Oregon Watershed Enhancement Board (OWEB) to continue funding habitat biologists that assist land owners through most of 2003. Additional funds will be needed from OWEB if these positions are to continue for the remainder of the 2003-05 biennium.
- Reductions resulting from implementation of the statewide salary freeze and reduced inflation allowances were also taken.

ODFW – Fish Division/Marine Resources

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,980,696	1,351,956	1,551,670	1,253,624
Lottery Funds	0	0	0	133,401
Other Funds	2,803,805	3,503,663	3,822,738	3,909,309
Federal Funds	3,343,844	4,976,042	4,733,190	5,112,894
Total	**8,128,345**	**9,831,661**	**10,107,598**	**10,409,228**
FTE	70.79	87.34	87.81	87.15

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Marine Resources program of $10.4 million is an increase of 5.9% from the 2001-03 legislatively approved budget. The budget funds a total of 124 positions and 87.15 FTE.

The approved budget for Marine Resources includes the following funding changes:

- $56,514 General Fund was reduced to continue actions taken during 2002 special sessions that eliminated at-sea research for juvenile near-shore rockfish, shrimp, and sardine studies.
- Elimination of 7 vacant positions (3.41 FTE) resulting in $78,156 General Fund, $109,636 Other Funds, and $49,789 Federal Funds savings.
- A one-time shift of $136,909 General Fund included in the Governor's budget for Oregon Plan salmon recovery efforts to Measure 66 Lottery Funds.
- $327,600 Other Funds and a Natural Resource Specialist 3 position (0.75 FTE) were added using revenue from passage of SB 597 which created a license for the taking of shellfish. Of this total, $177,600 was added for one-time expenses to make the computer changes necessary to accommodate sales of the new license.
- $1,571,200 Federal Funds was 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.
- $609,514 Federal Funds and 2 limited duration positions were added for two federal grant programs not included in the Governor's budget.

ODFW – Fish Division/Interjurisdictional Fisheries

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,643,061	727,792	1,076,655	1,005,135
Other Funds	3,283,708	5,476,000	6,690,104	6,202,325
Federal Funds	7,350,973	8,183,020	8,780,481	8,552,245

Total	**12,277,742**	**14,386,812**	**16,547,240**	**15,759,705**
FTE	49.28	86.03	77.31	75.60

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Interjurisdictional Fisheries program is $15.8 million, an increase of 9.5% from the 2001-03 legislatively approved budget. The legislatively adopted budget supports 78 positions and 75.60 FTE.

The Interjurisdictional Fisheries program's adopted budget includes the following funding changes:

- $92,439 General Fund was reduced to continue actions taken during 2002 special sessions that eliminated an Administrative Assistant position and reduced services and supplies expenditures.
- $304,558 total funds reduction resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General rates.
- Elimination of 4 vacant positions (1.71 FTE) resulting in $23,827 General Fund, $80,022 Other Funds, and $27,901 Federal Funds savings.
- $576,475 Other Funds added from the license fee increase restored 3.96 FTE and related services and supplies which were eliminated in the base budget due to a license and tag revenue shortfall.

ODFW – Habitat Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,229,455	1,648,686	1,460,850	0
Other Funds	3,485,492	4,245,476	3,032,672	0
Federal Funds	904,380	1,781,518	1,831,071	0
Total	**5,619,327**	**7,675,680**	**6,324,593**	**0**
FTE	42.34	43.10	32.92	0.00

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, are supposed to analyze and comment on proposals under review by other state, local, and federal agencies. The Division is charged with the Department's responsibility to coordinate analysis and written comment on public and private land proposals that affect fish or wildlife habitat.

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 Fish and Wildlife Department 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 received 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 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 resulted in 2003-05 savings of $487,920.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget eliminated the Habitat Division. All functions and positions were transferred either to the Wildlife Division/Habitat or Fish Division/Natural Production programs, with the exception of the Habitat Division director position, which was eliminated resulting in $267,478 General Fund savings. The Joint Committee on Ways and Means expressed concern that there was no close coordination between the Habitat Division's policy and procedures functions and the Department's program implementation staff when addressing habitat issues. The Committee felt these concerns would best be addressed by integrating the Division's functions into the programs charged with implementing habitat affecting programs. This reorganization was also undertaken to create General Fund efficiency savings that could be used to address the state revenue shortfall.

ODFW – State Police Enforcement

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	9,723,159	11,464,415	11,865,670	12,265,670
Total	**9,723,159**	**11,464,415**	**11,865,670**	**12,265,670**
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 from hunting and fishing license 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 habitat policies.

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget includes $12.3 million Other Funds from ODFW revenues for support of the State Police Fish and Wildlife Division. The amount represented a 7% increase from the 2001-03 transfer. As a result of revenues not being able to meet salary roll-up costs, the Governor's budget included a reduction of 3 positions that had been funded with ODFW revenue transfers. The Subcommittee added $400,000 Other Funds to restore these positions. The additional funding was made available through inflation and salary freeze savings from other ODFW programs. The adopted budget supports 64 positions in the Department of State Police with license and fee revenue.

ODFW – Agency Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,149,181	1,638,888	2,142,381	896,856
Lottery Funds	0	104,946	121,160	0
Other Funds	20,336,130	21,101,568	25,383,812	30,337,270
Federal Funds	1,556,121	1,298,018	1,306,833	1,263,797
Total	**23,041,432**	**24,143,420**	**28,954,186**	**32,497,923**
FTE	107.63	104.30	109.80	111.99

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 550 sites.

Revenue Sources and Relationships

Agency Administration 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 held across the state. Based on the responses to the plan, the Department made changes to priorities which were then adopted by the Fish and Wildlife Commission. As part of its effort to ensure fiscal accountability, the Department 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 Agency Administration 2001-03 budget was reduced by $2.5 million General Fund based on 2002 special session actions. The program 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 eliminated the $2 million

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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget for the Agency Administration Division of $32.5 million is an increase of 34.6% from 2001-03 legislatively approved levels. The budget includes $0.9 million General Fund, down 45.3% from the 2001-03 approved budget, which was caused primarily by using $1.2 million from license and tag sales revenue to replace General Fund support of administrative functions that had been included in the Governor's budget. The Agency Administration budget supports a total of 113 positions and 111.99 FTE.
The legislatively adopted Agency Administration budget includes the following additional funding changes:

- $1 million Other Funds was added as a one-time adjustment for computer hardware and software replacement. This funding will then be available in 2005-07 to meet future unbudgeted obligations such as operation of the Fall Creek Hatchery Research Center.
- $416,628 Other Funds and 2.48 FTE were added from indirect charges on federal grants not included in the Governor's budget.
- $100,000 Other Funds expenditure limitation was added for a youth fishing program; $50,000 was provided from license revenue with the expectation that this amount would be matched with private donations.
- $125,681 General Fund and $185,306 Other Funds were added for unemployment compensation expenditures from other programs to more correctly reflect administrative costs in the budget.
- $515,167 Other Funds, 3 positions and 4.50 FTE were added for the transfer of a budget analyst from the Habitat Division, the addition of two limited-duration positions, 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 restored 4 positions (4.0 FTE) and related services and supplies which were eliminated in the base budget due to insufficient license and tag revenue.
- $37,954 General Fund and $621,540 Other Funds reduction resulting from implementation of the statewide salary freeze, reduced inflation allowances, and lower Attorney General and Department of Administrative Services assessment rates.

ODFW – Nonlimited Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	7,928,450	2,258,015	0	3,000,000
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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget added $3 million for debt service to pay outstanding debt on the Portland headquarters with proceeds from the sale of the building to complete the move to Salem. In addition, $3.5 million Other Funds that had been used to service the debt on the Portland headquarters building was transferred to the Administrative Services Division to pay rent on the new Salem headquarters.

ODFW – Capital Improvement

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	451,915	201,658	211,272	203,859
Lottery Funds	0	0	0	5,125,000

Other Funds	3,488,321	4,560,538	4,364,356	6,214,647
Federal Funds	0	3,144,858	3,256,006	3,256,006
Total	**3,940,236**	**7,907,054**	**7,831,634**	**14,799,512**
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. 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 recreated the Fish Endowment Account 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.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget funds the Capital Improvement program at a total of $14.8 million, which is a 87% increase from the 2001-03 legislatively approved budget. This increase is caused by the addition of $5,125,000 Lottery Funds and $1,875,000 Other Funds for conversion of the Fall Creek Hatchery into a state of the art Hatchery Research Center. The Lottery Funds are Measure 66 dedicated funding for salmon recovery and the Other Funds come from a settlement with Portland General Electric over illegal takings of salmonids. The Research Center is expected to provide valuable insight into the interaction of hatchery reared salmonids with their wild counterparts and determine methods to raise fish that will mitigate possible negative impacts from this interaction. The budget also 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Federal Funds	1,317,933	5,100,000	0	0
FTE	0.00	0.00	0.00	0.00

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 during the interim.

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	32,446,890	39,795,695	36,550,441	39,546,083
Lottery Funds	379,400	0	0	0
Other Funds	127,759,665	268,024,905	162,668,712	158,418,905
Federal Funds	2,292,316	12,489,419	26,635,445	18,922,136
Nonlimited	20,100,090	7,514,800	12,500,000	15,000,000
Total	**182,978,361**	**327,824,819**	**238,354,598**	**231,887,124**
FTE	901.85	942.05	904.11	881.97

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	15,943,822	21,820,111	16,680,624	25,559,133
Other Funds	59,564,274	142,755,534	51,846,078	52,418,130
Federal Funds	0	8,268,886	15,440,323	12,549,462
Nonlimited	4,533,105	7,514,800	12,500,000	15,000,000
Total	**80,041,201**	**180,359,331**	**96,467,025**	**105,526,725**
FTE	333.60	361.13	336.10	370.18

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 $15 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 $20 million ($4.2 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) ($1.6 million);
  - assessment of $3.00 per lot (out of the $18.00 minimum assessed for forest patrol) ($1.14 million);
  - surcharge of $38.00 for each improved tax lot ($8 million); and
  - interest from State Treasurer investments of the fund ($0.1 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 $20.6 million total insurance with an annual deductible of $15 million and an annual premium of $3.6 million. Also by statute, the landowners' responsibility is limited to $15 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. The Legislature temporarily increased the annual expenditure limitation from $10 million to $15 million for the 2003-05 biennium.

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 sessions held in 2002 to balance the state's General Fund budget, 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.

Legislatively Adopted Budget

The Legislature approved a total budget of $105.5 million. The legislatively adopted budget reflects $25.6 million General Fund, $52.4 million Other Funds, $12.5 million Federal Funds, $15 million Other Funds Nonlimited, and 728 positions (370.18 FTE). The budget is 9%higher than the Governor's budget and 41% 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 budget was also decreased by $1.1 million General Fund, $1.7 million Other Funds, $271,717 Other Funds Nonlimited, and $10,415 Federal Funds for eliminating inflation, freezing merit increases, reducing PERS employer rates, lowering Attorney General rates, and reducing Department of Administrative Service charges. Technical adjustments include:

- Shifting $448 in Mass Transit costs from Other Funds Nonlimited to Other Funds.
- Restoring $622,643 Other Funds to pay for temporaries that were mistakenly eliminated during budget preparation.
- Adding $3.8 million General Fund, $7.2 million Other Funds, and 18 positions (32.37 FTE) (includes months restored on existing positions) to provide an adequate level of base fire protection. These dollars restore cuts made in the 2002 fifth special session and support critical expenditures for seasonal employees, annual inflation, and a helicopter contract.
- Adding $500,000 General Fund to support air tanker operations.
- Eliminating several seasonal laborer positions to support other adjustments, including reclassifying and increasing months on existing positions. These actions resulted in an overall increase of $62,406 Other Funds and a decrease of 1.58 FTE.

An increase of $7.5 million in the nonlimited expenditures reflects payments to districts for fire fighting cost reimbursement. This change is driven by HB 2301, which was approved by the Legislature to increase the OFLPF expenditure and reserve base caps. The Fund's statutory annual expenditure cap was raised temporarily to $15 million, which could mean spending up to $30 million in 2003-05 if fire conditions so dictate. Since these expenditures are budgeted as nonlimited, the budget can be increased administratively up to the statutory cap if required. The 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 budget includes a total of $25.6 million General Fund, which funds the base fire program at the 2001-03 legislatively aprroved budget level with an additional $5.7 million special purpose appropriation to the Emergency Board for extraordinary fire costs. The budget also adds $111,707 Other Funds expenditure limitation to support a 0.50 FTE for administration of the Emergency Fire Cost Committee previously unbudgeted in the Other Funds expenditure limitation.

Three program enhancements were approved by the Legislature. An increase of $9.7 million Federal Funds expenditure limitation and 4 limited duration positions (4.0 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 two grant coordinators and two support staff. 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 budget was increased by $984,878 Other Funds and 18 positions (10.34 FTE). Three permanent full-time positions (2.96 FTE), a Program Technician 2 and two Purchaser 2s, were approved to address the contract and grant administration portion of the workload and 5.38 FTEs spread over 14 positions will address workload in field units relating to safety training and fitness standards for field crews.

ODF – State Owned Forest Lands

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	38,980,804	57,969,974	63,615,047	57,673,860
Federal Funds	0	0	358,571	137,440
Total	**38,980,804**	**57,969,974**	**63,973,618**	**57,811,300**
FTE	252.22	255.83	270.18	246.71

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 63.75% 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.

Legislatively Adopted Budget

The Legislature approved a total budget of $57.8 million which is $6 million, or 8.7%, less than the Governor's budget and $158,674 less than the 2001-03 legislatively approved expenditure level. The legislatively approved budget reflects $57.7 million Other Funds, $137,440 Federal Funds, and 269 positions (246.71 FTE). Technical adjustments decreased the budget by $2.8 million Other Funds for inflation, merit freezes, PERS employer rates, Attorney General rates, and Department of Administrative Services charges. In addition, four vacant positions (an office manager, two natural resources specialists, and a laborer) were eliminated for a decrease of 1.97 FTE and $197,369 Other Funds.

The Legislature approved position changes requested by the agency that were not included in the Governor's budget. These changes eliminated several positions and reduced months on several other positions to support other position actions, including some outside the program unit. Two new positions were established, an Office Coordinator and a Forest Unit Supervisor 2, and four positions performing clerical, forestry, and equipment related functions were reclassified or refinanced. The overall result is a decrease of $684,059 Other Funds and four positions (5.70 FTE).

ODF – Forest Practices

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,316,217	8,018,441	8,381,648	3,995,332
Lottery Funds	379,400	0	0	0
Other Funds	5,454,405	6,929,632	6,855,468	10,278,846
Federal Funds	91,015	107,938	334,235	296,503
Total	**13,241,037**	**15,056,011**	**15,571,351**	**14,570,681**
FTE	102.24	109.49	94.20	91.04

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 budget, 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 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.

Legislatively Adopted Budget

The Legislature approved a total budget of $14.6 million which is $1 million, or 6.43%, less than the Governor's budget and $485,330, or 3%, less than the 2001-03 legislatively approved expenditure level. The legislatively approved budget reflects $4.0 million General Fund, $10.3 million Other Funds, $296,503 Federal Funds, and 92 positions (91.04 FTE). Technical adjustments resulted in a decrease of $220,917 General Fund, $497,818 Other Funds, and $11,752 Federal Funds for inflation, employee merit increases, PERS employer rates, Attorney General rates, and Department of Administrative Services charges. In addition, one vacant Natural Resource Specialist 2 position was eliminated and the number of months for a vacant dispatcher position was reduced for a decrease of $64,951 General Fund, $38,971 Other Funds, $25,980 Federal Funds, and 0.73 FTE.

The Legislature approved $218,678 Federal Funds and one limited duration Natural Resource 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 increase is in the Smoke Management Subprogram to add one Natural Resource Specialist 3 position and restore months on an existing position for an increase of $163,226 Other Funds and 1.07 FTE.

ODF – Forestry Assistance

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,272,120	1,566,080	1,961,905	830,166
Other Funds	1,751,643	3,277,290	3,008,299	3,375,524
Federal Funds	2,155,130	3,539,547	10,415,846	5,249,745
Total	**5,178,893**	**8,382,917**	**15,386,050**	**9,455,435**
FTE	39.43	40.42	40.98	35.60

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 under-producing or without a manageable stand of trees.

During the special legislative sessions held in 2002 to balance the state's General Fund budget, 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 delayed filling vacant positions shifting critical work to other filled positions, delaying other workload indefinitely.

Legislatively Adopted Budget

The Legislature approved a total budget of $9.5 million. The legislatively approved budget reflects $830,166 General Fund, $3.4 million Other Funds, $5.2 million Federal Funds, and 41 positions (35.60 FTE). The budget is 38.5% less than the Governor's budget and 12.8% higher than the 2001-03 legislatively approved expenditure level. Technical adjustments decreased the budget by $51,964 General Fund, $131,705 Other Funds, and $134,347 Federal Funds for inflation, merit freezes, lowering the PERS employer rates, Attorney General rates, and Department of Administrative Services charges.

The Legislature reduced the Forestry Assistance program by $199,562 Other Funds and 2.66 FTE. Through the elimination of two vacant clerical positions and the reduction of the number of months on another position to support position actions approved in other program units. The Legislature also reduced the number of months on 17 positions, for an overall decrease of 2.72 FTE. These reductions were carried forward from reductions made in March 2003, for a savings of $381,283 General Fund. The Legislature approved the following enhancements:

- A shift of $698,492 in General Fund expenditures to Other Funds available from the state's share of federal Pacific Coast Salmon Recovery Funds. This change is designed to maximize the use of federal and dedicated lottery dollars across natural resources agencies to maintain Oregon Plan activities while reducing General Fund expenditures. The fund shift is to be one-time, occurring only in the 2003-05 biennium.
- The approved budget 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, $1.4 million Federal Funds, and the addition of an Office Specialist 2 and two Natural Resource Specialist 2s (3.25 FTE), for a successor program for the Western Oregon Small Tract Optional Tax (WOSTOT) program. A total of 0.82 FTE spread across three positions that are currently involved in the administration of WOSTOT, 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 with an additional 2.07 FTE spread over four positions to maintain asssistance to family forest landowners in the areas of forest health, road surveys, and forest management standards.

ODF – Agency Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,914,731	8,391,063	9,526,264	7,119,519
Other Funds	9,216,473	12,517,951	9,640,567	8,653,316
Federal Funds	46,171	83,048	86,470	688,986
Total	**17,177,375**	**20,992,062**	**19,253,301**	**16,461,821**
FTE	83.98	84.82	73.44	84.02

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, Other Funds, and Federal 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 sessions held in 2002 to balance the state's General Fund budget, 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 delayed filling vacant positions shifting critical workload issues to other positions within the program

Legislatively Adopted Budget

The Legislature approved a total budget of $16.5 million. The legislatively approved budget reflects $7.1 million General Fund, $8.7 million Other Funds, $688,986 Federal Funds, and 82 positions (84.02 FTE). The budget is 14.5% less than the Governor's budget and 21.6% less than the 2001-03 legislatively approved expenditure level. Technical adjustments result in savings of $431,751 General Fund, $518,754 Other Funds, and $4,008 Federal Funds for eliminating inflation; freezing employee merit increases; lowering PERS employer rates, Attorney General rates, and Secretary of State Audits Division assessments; and reducing Department of Administrative Services charges. No positions were eliminated to capture vacancy savings in this program unit. The Legislature approved the following increases:

- Four positions (an Accountant 3, an Accountant Technician 3, and two student workers) at 3.00 FTE were added to monitor federal grant expenditures, compliance, and reporting. As a result, the budget was increased by $578,914 Federal Funds.
- Several position actions were approved to realign and improve clerical, information systems, maintenance, and fiscal support. Changes include abolishing four positions, reclassifying two clerical positions and one maintenance position, adjusting months on several positions, and moving two information technology positions from Forest Practices into the program. Five positions were established, including an Office Specialist 2, a Grounds Worker 2, a HVAC Control Technician, a Fiscal Analyst 1, and an Accountant 2. Positions in other programs were abolished or reduced to help fund these changes. The impact for Agency Administration is an increase of $163,285 General Fund, $660,925 Other Funds, $20,349 Federal Funds, and 7.58 FTE.
- A shift of $96,346 in personal services expenditures from General Fund to Other Funds, which originate as federal dollars coming through the Oregon Watershed Enhancement Board. This change will maximize the use of federal and dedicated lottery dollars to maintain Oregon Plan activities while reducing General Fund expenditures. The Legislature expects the fund shift to be one-time, occurring only in the 2003-05 biennium.
- A Public Share Fire Fund Analysis package that abolishes one position, establishes a Fiscal Analyst 2 position, and reclassifies an Accountant 1 to a Fiscal Analyst 2 for an overall increase of $17,787 Other Funds. These changes support analysis of a cost allocation system and development of an accounting sub-system toward bringing Public Share Fire Fund General Fund expenditures directly onto budget within actual expenditure categories. These positions will also help the agency match its accounting program structure with the budgetary structure for the execution of the 2005-07 biennium budget.

ODF – Facilities Management and Development Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	0	3,320,188	3,307,692
FTE	0	0	1.00	1.00

Program Description

The Facilities Management 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 an 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.

Legislatively Adopted Budget

The Legislature approved a budget of $3.3 million Other Funds and one position (1.0 FTE). A technical adjustment to freeze merit increases and to lower the PERS employer rate reduced the budget by $12,496 Other Funds. 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	6,534,825	6,844,636	4,649,292
Nonlimited	5,464,821	0	0	0
Total	**5,464,821**	**6,534,825**	**6,844,636**	**4,649,292**
FTE	59.06	59.57	57.25	23.55

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.

Legislatively Adopted Budget

The Legislature approved a budget of $4.6 million Other Funds and 86 positions (23.55 FTE). The budget is 32% less than the Governor's budget and 29% less than the 2001-03 legislatively aprroved expenditure level. Technical adjustments decreased the budget by $123,690 Other Funds for inflation, employee merit increases, PERS employer rates, Attorney General rates, and Department of Administrative Services charges. In addition, 101 vacant positions were eliminated for a savings of $2 million Other Funds and 33.70 FTE. These positions were created to respond to fluctuating market and activity levels in the program, but have not been needed for quite some time. The Legislature adopted a budget note instructing the Department to report on the financial status and business plan of the nursery program including future viability as an enterprise program.

ODF – Equipment Pool Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	12,748,236	13,614,261	13,027,227
Nonlimited	10,102,164	0	0	0
Total	**10,102,164**	**12,748,236**	**13,614,261**	**13,027,227**
FTE	31.32	30.79	30.96	29.87

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.

Legislatively Adopted Budget

The Legislature approved a budget of $13 million Other Funds and 32 positions (29.87 FTE). Technical adjustments decreased the budget by $500,422 Other Funds for inflation, merit increases, PERS employer rates, Attorney General rates, and Department of Administrative Services charges. In addition, one vacant communications analyst position was eliminated and the number of months for a vacant mechanic position was reduced for a decrease of 1.42 FTE and $147,491 Other Funds.

Finally, a seasonal pilot position was added and two positions consolidated for an overall increase of $60,879 Other Funds and 0.33 FTE.

ODF – Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	2,041,933
Other Funds	0	0	0	1,243,555
Total	**0**	**0**	**0**	**3,285,488**
FTE	0.00	0.00	0.00	0.00

Program Description

Debt service in this program relates to Certificates of Participation (COPs) issued for the construction of the Salem Headquarters Office Complex. COPs were issued in 1997-99 in the amount $6.6 million, in 1999-2001 in the amount of $11 million, and in 2001-03 in the amount of $1 million.

Revenue Sources and Relationships

Revenue to pay debt service comes from the General Fund (63%) and Other Funds (37%). The associated Other Funds revenue is based on a square footage assessment to the Equipment Pool from the Radio and Motor Pool Funds; State Owned Forest program from the Forest Development and Common School Lands Funds; Forest Practices program from Forest products Harvest Tax; and the Nursery Program from product sales.

Legislatively Adopted Budget

The Legislature approved a budget of $3.2 million Other Funds. Debt service expenditures were moved from the Agency Administration program to a new Debt Service program unit to isolate debt service expenditures in a separate program unit.

ODF – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	498,384	3,791,463	3,924,168	3,791,463
Total	**498,384**	**3,791,463**	**3,924,168**	**3,791,463**
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.

Legislatively Adopted Budget

The Legislature approved a budget of $3.8 million Other Funds; there are no positions attached to the program. Technical adjustments decreased the budget by $132,705 Other Funds by eliminating inflation.

ODF – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	12,293,682	21,500,000	0	0
Federal Funds	0	490,000	0	0
Total	**12,293,682**	**21,990,000**	**0**	**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 COPs and Other Funds generated from the State Forest Management program.

Legislatively Adopted Budget

No expenditures were approved for capital construction in the 2003-05 biennium.

Department of Geology and Mineral Industries (DOGAMI) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,248,132	2,915,086	3,118,727	2,887,346
Other Funds	2,533,571	3,289,542	2,877,181	2,842,813
Federal Funds	1,181,886	1,735,069	2,029,359	1,963,208
Nonlimited	89,371	100,000	100,000	100,000
Total	**7,052,960**	**8,039,697**	**8,125,267**	**7,793,367**
FTE	36.38	34.92	35.33	34.33

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.

DOGAMI – Geologic Survey

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,248,132	2,915,086	3,118,727	2,887,346
Other Funds	1,261,492	1,646,351	1,412,120	1,444,522
Federal Funds	1,054,047	1,454,908	1,740,145	1,685,064
Total	**5,563,671**	**6,016,345**	**6,270,992**	**6,016,932**
FTE	27.88	26.42	25.84	24.84

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 shifting support for a number of positions to Other Funds.

Legislatively Adopted Budget

The legislatively adopted budget for the Geologic Survey program is approximately 3.1% below the 2001-03 legislatively approved budget. The adopted budget ratified a reduction of $497,473 General Fund made in the Governor's budget by continuing actions taken during special sessions, reducing services and supplies, and shifting positions in the Coastal and Geo-hazards Sections, previously supported by General Fund, to Federal and Other Funds. Shifted positions are to be supported primarily from future reimbursable projects. The Legislature eliminated a vacant editor position after most of the position's funding was used in the above fund shift and generated additional General Fund savings of $72,020 by moving some of the funding for two positions from General Fund to Other and Federal Funds. The Legislature also made reductions totaling $95,835 due to the state employee salary freeze, reductions in Attorney General and Department of Administrative Services assessment rates, lower Public Employee Retirement System employer contribution rates, and a lower inflation allowance.

DOGAMI – Mined Land Reclamation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,272,079	1,643,191	1,465,061	1,398,291
Federal Funds	127,839	280,161	289,214	278,144
Nonlimited	89,371	100,000	100,000	100,000
Total	**1,489,289**	**2,023,352**	**1,854,275**	**1,776,435**
FTE	8.50	8.50	9.49	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 2001-03 fee structure was inadequate to continue program operations at current levels. To address this deficit the Department proposed a fee increase, with industry support, that will enable the program to continue to operate at the current levels. The Legislature approved this fee increase with the passage of HB 2256. The fee increase is expected to generate about $125,000 additional revenue during the 2003-05 biennium, allowing a positions held vacant in previous biennia to be filled.

Legislatively Adopted Budget

The legislatively adopted budget for the Mined Land Reclamation program represents an 8% decrease over the 2001-03 legislatively approved budget. This decline is created by expenditure limitation increases made by the Emergency Board during the 2001-03 biennium for new contracts that are not carried forward in the adopted budget. The Legislature made reductions totaling $33,305 due to the state employee salary freeze, the reduction in Attorney General rates, and a lower inflation allowance. In addition, $72,268 Other Funds and $7,207 Federal Funds were reduced due to lower Public Employee Retirement System rates.

Department of Land Conservation and Development (DLCD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	9,074,704	9,610,244	8,409,798	9,018,323
Other Funds	2,275,666	1,788,791	1,349,862	873,425
Federal Funds	3,206,079	5,175,091	7,468,427	5,684,425
Total	**14,556,449**	**16,574,126**	**17,228,087**	**15,576,173**
FTE	64.02	60.01	48.30	52.05

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 Bend, Central Point, Eugene, Portland, and Waldport. 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,990,277	6,911,218	6,136,626	6,639,970
Other Funds	2,187,616	1,697,415	1,258,486	873,425
Federal Funds	2,835,079	3,729,291	5,709,566	3,950,145
Total	**11,012,972**	**12,337,924**	**13,104,678**	**11,463,540**
FTE	63.52	59.01	47.78	51.53

Program Description

The Operations program includes the Office of the Director, the Operation Services Division, the Community Services Division, the Planning Services Division, and the Ocean and Coastal Services Division. The Office of the Director oversees day-to-day operations and agency policy. The Operation Services Division provides financial, personnel, and information systems services to the agency. In addition to the major functions described below, DLCD operates a Floodplain Management Program.

Collectively, the ***Community Services Division*** and the ***Planning Services Division*** oversee 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. They also provide technical assistance and administer grants to local governments. Key issues include affordable housing, urban growth boundaries, transportation planning, public facilities and services, and industrial land. These divisions also oversee the implementation of statewide planning goals in cities under 2,500 in population (roughly 150 cities) and in 36 counties. Again, each year staff typically participate in more than 50 periodic reviews, review more than 1,000 plan amendments, provide technical assistance, and administer grants to local governments. Key issues include conservation of farm and forestland, flooding and natural hazards, rural and community development, and protection of natural resources.

Within the ***Planning Services Division***, the agency recently established the Economic Development Planning Program. This newly created function is intended to be a cross-divisional, intra-agency team of employees who will work with other staff and agencies to implement HB 2011 passed by the 2003 Legislature. This bill creates the Economic Revitalization Team in the Governor's Office and directs various state agencies, including the Department, to participate and support the development of an inventory of up to 25 prioritized sites for economic development. Additionally, the bill requires the Department to take final action on certain amendments to comprehensive plans within 180 days of their submission, assist local governments in identifying potential sites and amending plans, and focus its resources on issues related to land supply within urban growth boundaries, transportation, and public facilities needed to stimulate economic growth.

The Transportation and Growth Management Program, which also exists within the ***Planning Services Division***, 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.

The ***Ocean and Coastal Services Division*** 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 provide staff support to 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).

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. In the 2003-05 legislatively adopted budget, this funding supports 34% of the program.

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 CZMA resources of $3.8 million for 2003-05, not including grants to local communities.

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 were estimated at $2.2 million in the Governor's budget for 2003-05. This was a substantial increase from the 2001-03 funding level of approximately $200,000 and was primarily for contracted services to update local flood maps. However, subsequent to development of the Governor's budget, the Department received updated information that these funds are no longer available and now will be distributed to the new federal Department of Homeland Security.

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 about $0.7 million in 2003-05. This is a decrease of about 50% 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 DOGAMI is not expected 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 has faced significant funding challenges just to maintain current operations. Previously, several positions were budgeted with federal funds that did not exist and the agency historically had used savings in its General Fund budget to support these positions. With the 2001-03 statewide General Fund shortfall and resulting budget reductions, this practice no longer could 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, DOGAMI did not commit to this support beyond 2001-03. These funding issues, in conjunction with the reduced level of TEA-21 funds from ODOT in 2003-05, have created 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). 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 and by $94,709 General Fund due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency expected to cover these reductions with 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. This resulted in a delay in filling vacant positions as well as a shift to Federal Funds and a corresponding realignment of staff duties. The estimated savings in 2003-05 from the roll-up of permanent reductions made in 2001-03 are approximately $1.5 million.

SB 920 passed by the 2003 Legislature streamlines the process of periodic review and is expected to reduce the agency's workload and provide an opportunity for the agency to eliminate an existing backlog relating to periodic review. As mentioned earlier, HB 2011 passed by the 2003 Legislature directs the agency, among other things, to take final action on certain amendments to comprehensive plans within 180 days of submission and to focus its resources on ensuring adequate land supply within urban growth boundaries, transportation, and public facilities needed to stimulate economic growth.

Legislatively Adopted Budget

The legislatively adopted budget is a 7.1% decrease from the 2001-03 legislatively approved level and a 12.5% decrease from the 2003-05 Governor's budget. Within the latter overall decrease, General Fund support increased by 8.2%, primarily due to the addition of $760,285 General Fund appropriated for activities under HB 2011. Yet even with this appropriation, General Fund support for Operations is 4% below the level in the 2001-03 legislatively approved budget after 2002 special session reductions.

The Legislature approved a supplemental reorganization package not included in the Governor's budget that restored, reclassified, and eliminated various positions and realigned the agency's organizational structure with available funding sources and agency needs. The package added $379,457 Federal Funds expenditure limitation, reduced General Fund by $15,224, and added 1 position (2.83 FTE). The Legislature approved a work plan for the agency that covers areas of concern such as fiscal management, customer service, streamlined processes, and workload prioritization. The agency was directed to report twice to the Emergency Board on progress in implementing the plan, at which time the agency can request allocation of a $275,612 General Fund special purpose appropriation.

The Legislature also approved the following:

- $277,731 Federal Funds expenditure limitation for NOAA-supported public outreach and performance measurement activities related to local coastal government planning;
- $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 (funding is from the U.S. Environmental Protection Agency);
- $25,000 Federal Funds expenditure limitation to develop a plan required as a condition of eligibility to apply for competitive grants from the Coastal and Estuarine Land Conservation Fund administered by NOAA;
- a decrease of $158,631 in Other Funds expenditure limitation and elimination of 1 position (0.83 FTE) due to discontinuation of dispute resolution activities; and
- a decrease of $396,584 in Others Funds expenditure limitation and elimination of 4 positions (3.0 FTE) to reflect the consolidation of TGM activities at ODOT to improve assistance to local governments. Approval of this package allows the agency to use General Fund no longer needed as match to establish a Community Development Specialist position (1.0 FTE) for aligning regulatory processes with economic and community development goals.

The Legislature modified a package that eliminated $87,597 Other Funds expenditure limitation and a 0.50 FTE for mineral and aggregate issues. This modification, which added back $40,000 Other Funds expenditure limitation and 0.25 FTE, reflects ODOT's agreement to continue partial funding for the position in 2003-05. In conjunction with the partial restoration of the position in the reorganization package approved by the Legislature, the 2003-05 budget provides a 0.83 FTE for this function.

Due to a lack of funding, the Legislature did not approve $2 million Federal Funds expenditure limitation for 2 positions (1.5 FTE) and contracted engineering services for flood map modernization supported by FEMA funds. Finally, the Legislature reduced the budget for a lower PERS employer contribution rate, the salary freeze for state employees, elimination of the inflation allowance, and reduced interagency service charges.

DLCD – Grants

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,700,837	2,355,007	1,985,991	2,103,382
Other Funds	88,050	91,376	91,376	0
Federal Funds	371,000	1,445,800	1,758,861	1,734,280
Total	**3,159,887**	**3,892,183**	**3,836,228**	**3,837,662**
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. This program is intended to ensure continued compliance with the statewide planning goals. Grants awarded have included those for periodic review, technical assistance, planning assistance, regional problem-solving, dispute resolution, 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 this program is conducted by Operations staff. 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 $1.7 million in CZMA funds for the Grants program.

Other Funds expenditure limitation represents dispute resolution matching funds provided by participants.

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, the Grants budget was reduced by $20,000 General Fund due to the December 2002 economic and revenue forecast. These reductions affected 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.

The 2003 Legislature passed legislation that likely will have an effect on how the agency distributes grants. Under HB 2011, the Economic Revitalization Team is to coordinate the grant and loan activities of state agencies to help identify and prioritize up to 25 sites to be used for industrial and traded sector uses. This legislation also directs DLCD to "…[p]rovide grants to local governments in a manner that furthers the implementation of the state economic development strategy." Additionally, SB 920, which makes changes to the periodic review process, may affect how the agency distributes grants for periodic review. SB 920 also establishes a permanent advisory committee to provide input to LCDC and DLCD on the allocation of the agency's General Fund for grants and technical assistance. A budget note approved by the Legislature directs the establishment of a similar committee to advise LCDC and DLCD in the development of a plan regarding General Fund grants to local governments for technical assistance and periodic review.

Legislatively Adopted Budget

The legislatively adopted budget is a 1.4% decrease from the 2001-03 legislatively approved level and essentially the same level as that in the Governor's budget. General Fund support is decreased by 10.7% from the 2001-03 legislatively approved budget, primarily due to the roll-up effect of permanent reductions made in 2001-03 and to the phase-out of Regional Problem-Solving grants ($158,125 General Fund). Offsetting these reductions, however, is a $200,000 General Fund appropriation in HB 2011 for grants to local governments.

The total General Fund for 2003-05 includes an $86,754 special purpose appropriation to the Emergency Board that may be allocated when the agency reports on its legislatively approved work plan.

The Legislature approved a package for $1 million Federal Funds expenditure limitation for CZMA grants to local coastal governments. The Legislature eliminated the Other Funds expenditure limitation since the agency will no longer receive funds for dispute resolution grants. It also reduced General Fund support and Federal Funds expenditure limitation due to elimination of the inflation allowance.

DLCD – Landowner Notification

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	383,590	344,019	287,181	274,971
FTE	0.50	1.00	0.52	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 failing to meet 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, the budget was reduced by $4,214 General Fund due to the December 2002 economic and revenue forecast. The agency expected to absorb this reduction through lower services and supplies purchases for the remainder of the biennium. Finally, $13,054 General Fund was disappropriated from the agency's budget since the January 2003 tax measure was not approved by voters. The agency expected this would 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.

Legislatively Adopted Budget

The legislatively adopted budget is a 20.1% decrease from the 2001-03 legislatively approved level and a 4.3% decrease from the Governor's budget. It continues the reduced staffing level for this program and provides about $180,000 General Fund for reimbursement of claims. Of this amount, $12,634 was appropriated to the Emergency Board as a special purpose appropriation pending the agency's report on its work plan approved by the Legislature. The budget also was adjusted for elimination of the inflation allowance and a reduction in interagency service charges.

Land Use Board of Appeals – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,106,736	1,201,445	1,345,871	1,205,116
Other Funds	85,198	61,180	67,176	60,507
Total	**1,191,934**	**1,262,625**	**1,413,047**	**1,265,623**
FTE	7.00	7.00	6.50	6.00

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. 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. 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. 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.

To help address these workload issues, a permanent staff attorney was provided by the Legislature in 1997 to conduct legal research and to assist with the production of final opinions and orders. As a result, the agency was able to eliminate the backlog in issuing final opinions in 2001. Since then, almost all final opinions have been issued within the statutory deadline. (However, recently the agency fell behind due to understaffing in 2001-03, but it expects to eliminate its current backlog shortly.) Also, 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 assisted the referees and the staff attorney in conducting legal research, maintained the agency's website, and was responsible for final editing and citation-checking of opinions.

Management of the agency's workload also has been aided by the decline in the number of appeals from the peak in the late 1990s. Compared to the 265 appeals LUBA received in 1997, it received 202 appeals in 2001 and 181 in 2002. The agency attributes the most recent decline to the state's economic downturn. In anticipation of an economic recovery, LUBA projects an increase in the number of appeals over the next three years**:** 204 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 absorbed these reductions through savings in personnel costs. Additionally, HB 5100 from the fifth 2002 special session provided for $45,590 General Fund to be disappropriated from the agency's budget due to the failure of the January 2003 tax measure. Part of this reduction was covered by vacancy savings from the departure of the publications coordinator in January 2003. The balance was covered primarily by other personnel reductions. The staff attorney position was eliminated on February 1, 2003 although, because of other attrition, it was later restored for the remainder of the 2001-03 biennium. The administrative support specialist position was reduced to 0.5 FTE on February 1, 2003 and eliminated at the end of the 2001-03 biennium. For 2003-05, the roll-up effect of staffing reductions resulted in estimated savings of $249,108 General Fund.

In addition, the agency's General Fund budget was reduced by $14,712 due to the December 2002 economic and revenue forecast, which projected an additional $112 million statewide budget shortfall for 2001-03. The agency expected to absorb this reduction primarily by purchasing fewer services and supplies for the remainder of the biennium.

Because of the small size of the agency, elimination of any of its positions can result in delays in issuing written opinions. In addition, there is the risk that publication of *LUBA Reports* will be delayed or suspended. If LUBA cannot resolve land use appeals and disseminate its opinions in a timely manner, the main reason for its existence is compromised.

Legislatively Adopted Budget

The legislatively adopted budget of $1.3 million is a 0.2% increase over the 2001-03 legislatively approved level and a 10.4% decrease from the Governor's budget. The Governor's budget restored the staff attorney position (1.0 FTE) and partially restored the administrative support specialist position (0.5 FTE) eliminated as a result of HB 5100 reductions. The budget also established the publications coordinator position (1.0 FTE) as permanent.

The Legislature approved the restoration of the staff attorney position but, in recognition that there may no longer be a need for a full-time publications coordinator, replaced this latter position and the administrative support specialist position with a paralegal. This position will spend half of its time on administrative support duties and the other half on publications and website duties. The staff attorney and board members will absorb some of the duties previously performed by the publications coordinator. These staffing changes were made assuming workload will not increase significantly from that projected for 2003-05.

The Legislature also adjusted the budget for a lower PERS employer contribution rate, the salary freeze for state employees, elimination of the inflation allowance, and reduced interagency service charges.

Division of State Lands (DSL) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	34,381	127,691	30,336	139,311
Other Funds	12,629,929	15,506,814	15,429,625	14,355,486
Federal Funds	904,528	2,657,125	1,614,737	1,561,420
Nonlimited	77,010,736	49,500,000	34,800,000	27,100,000
Total	**90,579,574**	**67,791,630**	**51,874,698**	**43,156,217**
FTE	75.79	80.75	81.83	86.09

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.

Effective January 1, 2004, the agency's name will be changed to the Department of State Lands as a result of SB 311 passed by the 2003 Legislative Assembly.

DSL – Common School Fund Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	110,000
Other Funds	10,465,726	13,517,529	13,511,918	12,665,232
Federal Funds	294,998	508,248	508,248	508,248
Nonlimited	77,010,736	49,500,000	34,800,000	27,100,000
Total	**87,771,460**	**63,525,777**	**48,820,166**	**40,383,480**
FTE	65.79	68.75	71.83	72.09

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 forestlands 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. Field Operations staff issue leases, easements, rights-of-way, and licenses for use of state-owned uplands and waterways. This section administers about 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 currently projects $28 million in timber revenue for 2003-05, down $14 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.

During the 2003 legislative session, the Division proposed a fee increase for its removal-fill permitting program. The fee was last increased in 1989. Historically, permit revenues covered 25% of the program's costs, but that percentage has fallen to 12% of costs, which are expected to be about $3.2 million for the 2003-05 biennium. The 2003 Legislature did not approve the fee increase, which would have provided additional permit fee revenues of $0.4 million. Therefore, under current law, the Division expects to receive $0.4 million from these revenues for 2003-05.

Federal Funds are received by the Common School Fund Programs primarily for U.S. Environmental Protection Agency 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.

Under the policy, the distribution for the 2001-02 school year was $15.6 million, followed by a distribution of $14.6 million for the 2002-03 school year. 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, distributed in December 2003, was to offset a corresponding General Fund reduction in the State School Fund. The total distribution of $48 million for 2001-03 was far below the 1999-01 distribution of $76 million, due to declines in the stock market as well as lower earnings. 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. Recently, however, the Fund's value increased to about $713 million as of August 31, 2003.

The Board periodically reviews 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").

Legislatively Adopted Budget

The legislatively adopted budget is a 36.4% decrease from the 2001-03 legislatively approved budget and a 17.3% decrease from the Governor's budget. The decrease is primarily due to lower planned distributions to schools in 2003-05, by approximately $22.4 million and $7.7 million respectively. The Legislature adjusted the Governor's budget to reflect a change in the planned distributions due to the estimated market value of the Fund, although actual distributions may be higher based on the recent growth in the Fund's value.

Without regard to the Common School Fund distributions, the budget is a 5.3% decrease from both the 2001-03 legislatively approved budget and the Governor's budget. The Legislature approved the following:

- $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;
- $262,464 Other Funds expenditure limitation and 2 limited duration positions (1.92 FTE) for expedited environmental permitting related to the Oregon Department of Transportation's bridge and highway improvement projects;
- $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;
- $136,941 Other Funds expenditure limitation and 1 limited duration position (0.92 FTE) to manage Division properties in Central and Eastern Oregon and maximize revenue-raising projects that benefit the Common School Fund;
- $120,334 Other Funds expenditure limitation for 1 limited duration position (0.92 FTE) and contracted or temporary services for improved fiscal controls and public outreach in the Trust Property Section;
- $85,000 Other Funds expenditure limitation for improvements to the heating, ventilation, and air conditioning systems in the Division's Salem building;
- $30,000 Other Funds expenditure limitation for increasing the information systems capacity through replacement of outdated work stations and printers; and
- $28,309 Other Funds expenditure limitation for an increase in the rent expense for the Division's regional office in Eastern Oregon.

In addition, the Legislature provided $110,000 General Fund and approved establishment of 1 position (0.83 FTE) for the agency's role under HB 2011, which creates the Economic Revitalization Team. The bill directs various state agencies, including the Division, to participate and support the development of an inventory of up to 25 prioritized sites for economic development. Additionally, the Division is expected to expedite a permitting process for wetlands mitigation and to provide technical assistance to property owners and state and local governments.

The Legislature reduced the agency's budget for a lower PERS employer contribution rate, the salary freeze for state employees, reduced salaries for vacant positions, elimination of the inflation allowance, and reduced interagency service charges.

The agency was directed by a budget note to report to the Emergency Board on progress toward implementing a work plan approved by the Legislature. This plan was developed in response to a number of concerns, including the costs of Common School Fund forestland management, revenue enhancement for the Common School Fund, public relations, and customer service.

DSL – South Slough National Estuarine Research Reserve

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	841,964	1,224,062	1,037,534	972,936
Federal Funds	592,242	2,079,574	1,037,186	983,869
Total	**1,434,206**	**3,303,636**	**2,074,720**	**1,956,805**
FTE	10.00	12.00	10.00	14.00

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 contained 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.

Legislatively Adopted Budget

The legislatively adopted budget is a 40.8% decrease from the 2001-03 legislatively approved budget and a 5.7% decrease from the Governor's budget. 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 includes 2 limited duration positions (2.0 FTE) supported by $217,703 Federal Funds expenditure limitation to continue positions established by the 2001 Legislature for the 2001-03 biennium. 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.

In addition, the Legislature approved the addition of $1,755 Other Funds expenditure limitation and $3,684 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. It also approved a supplemental package that continues four limited duration positions – within existing expenditure limitation - for maintenance, training, research, and restoration monitoring. Reductions were made for a lower PERS employer contribution rate, the salary freeze for state employees, elimination of the inflation allowance, and reduced interagency service charges.

As part of the work plan approved by the Legislature, the Division was directed to develop a management plan to minimize use of the Common School Fund to support the activities of the SSNERR.

DSL – Natural Heritage Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	34,381	127,691	30,336	29,311
Other Funds	391,580	1,309	1,354	1,309
Federal Funds	17,288	69,303	69,303	69,303
Total	**443,249**	**198,303**	**100,993**	**99,923**
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 Act requires that all conservation efforts be voluntary on the part of the landowner 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 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.

The Division is responsible for providing administrative support to the NHAC. Previously, the Division also was responsible for maintaining 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. Statutory responsibility for maintenance of the data bank was transferred to the Oregon State University as a result of HB 2179 passed by the 2003 Legislative Assembly.

Revenue Sources and Relationships

The Natural Heritage Program receives General Fund for the Division's administrative support of the NHAC. 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 September 2003, the statewide register of natural heritage resources contained 95 sites, including 8 dedicated as natural heritage conservation areas. This is an increase of 24 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 data bank function from a contract with The Nature Conservancy to a state agency, preferably the Division or Oregon State University (OSU). In June 2002, the agency transferred responsibility and funding for management of the function to the Natural Resources Institute at OSU. As noted earlier, HB 2179 (2003) statutorily transferred that responsibility.

The Division's General Fund budget for the NHAC was reduced by $4,472 during the 2002 special legislative sessions. Of this amount, $1,097 is attributable to the failure of Measure 28 in January 2003. 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. The estimated 2003-05 roll-up effect of the legislative reductions is about $5,000. Since this is about 15% of the General Fund budget, the reduction may affect the NHAC's ability to comply with its statutory requirements.

Legislatively Adopted Budget

The legislatively adopted budget is a 49.6% decrease from the 2001-03 legislatively approved budget and a 1.1% decrease from the Governor's budget. The decrease from the 2001-03 level of funding reflects the transfer of the data bank function to the Natural Resources Institute at OSU. The Governor's budget was adjusted to reflect removal of inflation allowances and reduced interagency charges.

DSL – Oregon Wetlands Revolving Fund

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
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, six projects totaling $315,951 were funded.

Legislatively Adopted Budget

The legislatively adopted budget continues the program at the 2001-03 legislatively approved level, which is the same as the Governor's recommended budget for this program.

DSL – Capital Improvements/Common School Fund

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	331,525	413,914	528,819	366,009
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.

Legislatively Adopted Budget

The legislatively adopted budget is an 11.6% decrease from the 2001-03 legislatively approved budget and a 30.8% decrease from the Governor's budget. The Legislature did not approve a package providing $150,000 Other Funds expenditure limitation for fire suppression and rehabilitation costs on Oregon rangeland. Instead, it directed the agency to request additional limitation from the 2003-05 Emergency Board, if needed. The Legislature also reduced the budget by $12,810 to reflect removal of the inflation allowance.

Oregon State Marine Board (OSMB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	17,529,970	17,588,863	22,202,705	22,069,332
Federal Funds	3,110,021	5,056,029	5,039,933	4,976,141
Total	**20,639,991**	**22,644,892**	**27,242,638**	**27,045,473**
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 was 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 Legislature adopted new fees based on a flat fee of $3/foot for two years; one time title fees were adjusted to $30. Increased fees will generate $5 million additional revenue.

Boat Title and Registration Fees

Titling Fees	Adopted Fees	Registration Fees	Adopted Fees
Oregon Title Transfer; Oregon Title; new boats or Out of State Transfers; Lost Title without change of ownership	$30	Motorboat up to 11'11" with < 30hp motor	$3/ft
Lost Title replacement w/change of owner	$10	Motorboat up to 11'11" with 30hp or more – includes Personal Watercraft of any length	$3/ft
Duplicate Certificate of Number (reg. card)	$15	Motorboat or sailboat 12' to 15'11"	$3/ft
Duplicate Decals and Cert. of Number	$10	Motorboat or sailboat 16' to 19'11"	$3/ft
Title & Plate for Boathouse/Floating Home	$20	Motorboat or sailboat 20' and over in foot or partial foot	$3/ft

2003-05 Fee Revenue Estimate

Title Fees	$1,659,095	Net Increase of $1,163,052
Registration Fees	$8,661,986	Net Increase of $3,799,074
Total Revenue	**$10,321,081**	**Total Net Increase $4,962,126**

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. The 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $27.0 million, a decrease of 1% from the Governor's budget, and 39 positions (38.00 FTE). Technical adjustments reduced expenditures by $716,870 total funds. These statewide adjustments include decreases of:

- $382,908 to eliminate a 3.5% inflation factor originally built into the budget for most services and supplies, capital outlay, and special payment line items;
- $209,160 to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003;
- A reduction of $117,663 to incorporate the impact of legislation to reduce the PERS employer rates;
- $1,256 to accommodate an Attorney General rate change, which reduced the charge to agencies from $109 to $98 per hour; and
- $5,883 to reflect reductions made in the Department of Administrative Services budget, which is supported by agency assessments.

OSMB – Administration and Education

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	3,312,549	3,886,326	4,617,586	4,455,790
Federal Funds	100,878	113,405	113,405	113,405
Total	**3,413,427**	**3,999,731**	**4,730,991**	**4,569,195**
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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $4.5 million and 25 positions (22.84 FTE), a decrease of $161,796 from the Governor's budget. Technical adjustments resulted in a decrease of $311,796 Other Funds for inflation, merit increases, Attorney General rates, PERS employer rates, and Department of Administrative Services charges.

The following packages were approved:

- a "Revenue Enhancement" package to add fee revenue generated by HB 2247, with revenues to be allocated throughout the agency to maintain program activities and to increase direct services to stakeholders;
- $236,395 to restore one position and services and supplies to maintain program operations for processing title registrations and boating safety education programs;
- $306,000 to implement a public service education campaign designed to encourage life jacket use among Oregon's boaters;
- $150,000 to finance the removal and clean up of abandoned vessels weighing less than 200 gross tons, if cost recovery cannot be obtained from owners authorized in HB 3628;
- $76,644 to enhance information technology; and
- $17,970 to biennialize the reclassification of a Management Analyst 3 position to Principal Contributor 2 approved by the Emergency Board in October 2002.

OSMB – Law Enforcement

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted Budget
Other Funds	7,157,938	8,015,912	9,512,230	9,202,895
Federal Funds	2,142,159	2,185,685	2,185,685	2,185,685
Total	**9,300,097**	**10,172,872**	**11,757,603**	**11,388,580**
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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $11.4 million and 4 positions (4.83 FTE), a reduction of $62,019 from the Governor's budget. Technical adjustments decreased the budget by $309,335 Other Funds and $59,688 Federal Funds for inflation, merit increases, Attorney General rates, PERS employer rates, and Department of Administrative Services charges.

The Legislature approved $966,202 to increase marine law enforcement to add one full-time and 15 seasonal officers to 11 county marine enforcement programs and to fund training for the officers. In addition, $41,284 was approved to enhance the current computer system.

OSMB – Facilities Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	7,059,483	5,686,625	8,072,889	8,410,647
Federal Funds	866,984	2,756,939	2,681,155	2,677,051
Total	**7,926,467**	**8,443,564**	**10,754,044**	**11,087,698**
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 (CVA). The Marine Board expects to receive federal grants from the CVA 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 new Boating Infrastructure Grants (BIG) 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 BIG for non-trailerable boating facilities will not actually begin until sometime in the 2003-05 biennium 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 CVA, the 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $11.1 million and 10 positions (10.33 FTE). Technical adjustments decreased the budget by $31,947 Other Funds and $4,104 Federal Funds for inflation, merit increases, Attorney General rates, and Department of Administrative Services charges.

The Legislature approved $485,923 to restore the reductions made in the base budget that would have reduced the amount of grant funds available for maintenance and improvements at boating facilities and public access sites statewide as a result of approving the revenue package to support these improvements. Also approved is $2.3 million for additional grants for maintenance and improvement at boating facilities and public access sites; $51,443 for improvements to the agency computer infrastructure; and $11,969 to biennialize the cost of a reclassification of a Natural Resource Specialist 2 position to Natural Resource Specialist 3 approved by the Emergency Board during the 2001-03 biennium.

State Parks and Recreation Department (OPRD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	89,176	0	0	0
Lottery Funds	41,189,960	50,887,866	51,537,233	57,173,958
Other Funds	59,268,208	77,374,255	78,128,452	76,571,333
Federal Funds	3,056,870	9,548,033	9,128,886	8,976,693
Nonlimited	1,925,901	3,735,328	3,866,065	3,866,065
Total	**105,530,115**	**141,545,482**	**142,660,636**	**146,588,049**
FTE	466.37	509.62	530.82	524.44

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 231 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, 173 day-use areas, 475 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 $49 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 in 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 (RV) registration fees. 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 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 slow 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 electronically connect to parks in locations around the state and converts the Department's financial systems to SFMS. Phase one was 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.

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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $146.6 million, a 2.8% increase from the Governor's budget, and 524.44 FTE. The 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 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 on the Capitol Mall.

Technical adjustments reduced the budget by $4 million total funds, and consist of the following:

- $2.1 million to reflect reductions in the PERS employer rates.
- $893,078 to eliminate a standard 3.5% inflation factor originally built into the budget for most services and supplies, capital outlay, and special payments. Inflationary increases for rent, state government services charges, and utility costs are retained.
- $803,181 to eliminate employee compensation adjustments, including merit increases scheduled to occur after July 1, 2003, and revocation of a cost-of-living adjustment scheduled for February 2003.
- $10,809 for Attorney General rate changes, which reduced the charge to agencies from $109 to $98 per hour.
- $123,451 to reflect reductions made to the Department of Administrative Services assessments and Risk Management liability charges.

A budget note directs the agency to provide a comprehensive report to the next Legislature during its budget presentation to illustrate how Lottery Funds have been expended in each of the seven fiscal years since the approval by Oregon voters to distribute lottery proceeds to the Department.

OPRD – Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	8,316,300	9,947,823	9,211,622	9,861,807
Other Funds	10,222,905	18,177,355	15,086,006	12,846,164
Federal Funds	0	17,863	21,777	20,111
Total	**18,539,205**	**28,143,041**	**24,319,405**	**22,728,082**

FTE	62.25	77.00	82.35	79.72

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*** (12.87 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*** (9.0 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 that was 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $22.7 million and 79.72 FTE. Technical adjustments totaling $1.3 million reduce state government service charges to reflect adjustments to the Department of Administrative Services budget, namely assessments; employee compensation freeze; a moratorium on merit increases; the revocation of cost-of-living adjustments scheduled for February 2003; changes resulting from attrition; and the PERS employer rate reduction. The adopted budget includes an adjustment requested by the agency to move two volunteer coordinator positions from the Administration Program to the Operations Program. The adopted budget reflects approval of the following policy packages:

- The Financial Management System, Phase 2 was approved, with modifications to funding the completion of the system project. The package includes funding for a database for better management reporting and a Point-of-Sale system for collecting and accounting for park user fees. An increase of about $1.5 million

Lottery Funds carry-over from the 2001-03 biennium enabled the Department to fund the second phase without using Certificates of Participation (COPs). This change saves $214,560 Other Funds that would have been needed to cover COP financing costs. It also reduces Other Funds expenditures and revenues that would have resulted from the sale of COPs. Phase 2 is now estimated to cost $1.9 million.

- A Geographic Information Systems proposal was approved with modifications to the number of positions. The package was approved at a cost of $267,914 with one limited-duration Information Specialist for 21 months (0.87 FTE), instead of two permanent positions. Data entry work will be done by temporary employees, and existing staff will then maintain the system. The package also includes one-time equipment and software expenditures for the Geographic Information System.
- A relocation of the Salem office was approved at a total budget of $498,417, allowing the Department to pay for moving costs, voice and network cabling, and systems furniture as it moves to the new North Mall building.
- Conversion of temporary position expenditure limitation to 13 seasonal positions (7.59 FTE) was approved. This allows the agency to handle workload fluctuations at Reservations Northwest, conform to statutes and Department of Administrative Services rules concerning the use of temporary appointments, and address turnover issues. The action shifts $303,557 from the services and supplies expenditure category to the personal services expenditure category resulting in no net expenditure change.

OPRD – Heritage Conservation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	1,062,549	1,521,584	2,116,155	2,104,752
Other Funds	48,236	200,067	206,880	282,503
Federal Funds	1,082,644	1,878,021	2,092,424	2,047,920
Total	**2,193,429**	**3,599,672**	**4,415,459**	**4,435,175**
FTE	10.40	14.50	14.50	16.50

Program Description

- The ***State Historic Preservation Office*** (SHPO) (15.25 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 revenue for these programs comes 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 and for 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $4.4 million and 16.5 FTE. Technical adjustments totaling $101,926 include reductions for the employee compensation freeze, including a moratorium on merit increases; the PERS employer rate reduction; and the revocation of cost-of-living adjustments scheduled for February 2003. Also included is a Principal Executive Manager D, Heritage Conservation Operations Manager, which will be created by moving and reclassifying a vacant beach permit coordinator position in the Operations Program, and the establishment of a limited-duration Program Technician 2, which will serve as an archeologist. The funds to support the position come from moving dollars out of the services and supplies expenditure category to the personal services expenditure category. The adopted budget reflects approval of the following policy packages:

- $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 state match for Federal Funds.
- $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.
- $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.
- $300,000 is recommended for funding grants to local governments and not-for-profit organizations commemorating the Lewis and Clark Bicentennial.

OPRD – Grants

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	2,879,156	7,136,686	5,280,000	7,897,910
Other Funds	3,258,854	8,992,572	8,264,115	8,169,056
Federal Funds	1,292,784	4,610,046	3,906,917	3,861,010
Total	**7,430,794**	**20,739,304**	**17,451,032**	**19,927,976**
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. Increases in ATV permit sales 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $19.9 million and 9.0 FTE. The budget is 14.1% higher than the Governor's budget. Technical adjustments totaling $523,056 include employee compensation freeze, PERS employer rate reduction, and non-fixed inflation adjustments. The approved budget includes the following policy packages:

- $1 million Other Funds to enable the Department to purchase property for developing ATV parks so that the public can ride their vehicles without causing environmental problems in sensitive areas. Funding comes from ATV registration revenues. The current ATV grant program awards three grant cycles per year: one for minor acquisitions, one for maintenance and operations, and one for safety education and law enforcement. The additional expenditure limitation allows for possible acquisitions while keeping the current three grant cycles intact.
- $3 million Lottery Funds to enhance the local park grants program if additional Lottery Funds beyond the close-of-session forecast become available during the biennium.

OPRD – Acquisitions

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	4,000,000	4,000,000	4,000,000	7,000,000
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.

Legislatively Adopted Budget

The $7 million budget for this program unit was approved, with a $3 million increase from the Governor's budget for additional land acquisitions if additional Lottery Funds beyond the close-of-session forecast become available during the biennium. There are no positions budgeted in this program.

OPRD – Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	89,176	0	0	0
Lottery Funds	6,765,530	9,768,587	12,764,328	12,229,349
Other Funds	43,891,810	46,388,903	50,956,093	51,658,252
Federal Funds	335,728	1,577,103	1,642,768	1,582,652
Total	**51,082,244**	**57,734,593**	**65,363,189**	**65,470,253**
FTE	367.38	392.12	406.97	407.22

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*** (383.22 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 and issues permits for construction, fill, and removal; 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 created a need for 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 the 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%.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $65.5 million and 407.22 FTE. The budget is 0.2% higher than the Governor's budget. Technical adjustments totaling $2.3 million include reductions for an employee compensation freeze, vacant position elimination, the PERS employer rate assessment, and non-fixed inflation adjustment. Also, two volunteer coordinator positions were transferred from the Administration Program in order to align the budget with actual operations; dollars were shifted from the services and supplies expenditure category to the personal services expenditure category to fund six positions transferred from Facility Investment to Operations; and two vacant seasonal positions (0.17 FTE) were eliminated. Three months are added to two other seasonal positions, for a net increase of 0.17 FTE, and one beach permit coordinator position is transferred to the Heritage Conservation program to work as an operations manager.

In addition, the Legislature approved:

- Adding $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 that would allow for complete replacement of equipment. The Department will use the state's surplus sales process to dispose of the old equipment and will use proceeds of those sales to partially offset the cost of the new equipment.
- The new State Park in Washington County, Phase 1 with modifications, which begins the first of three phases to develop the park. The first phase includes sewer, water, electrical, road, and trailhead facilities. The Legislature added $2.5 million Other Funds, in addition to the $1 million Lottery Funds requested, in order to reduce the ending balance. The additional funds will allow the agency to proceed more quickly with the overall development of the park.
- Adding interpretive services in 6 parks and 3 areas with modifications resulting in an overall decrease of $100,337 Lottery Funds and nine positions (6.75 FTE), and a change to use contract services, rather than personal services, to deliver this program improvement.
- A technical adjustment to change how payments to the Oregon Youth Conservation Corps are reflected in the budget by making them special payments to better track statewide expenditures.
- An increase of $611,960 in Lottery Funds for extraordinary utility costs beyond general inflation rates since electric costs have increased 54%, natural gas 22%, garbage 9%, and water-sewer 12%. All are in excess of the 3.5% that had been allowed for inflation.
- An increase of $572,185 Other Funds to convert temporary position expenditure limitation for work assignments that are longer than three months in each fiscal year to 22 seasonal positions (8.1 FTE). The positions include 17 Ranger Aides, 1 Park Ranger, 2 Food Service Workers, and 1 Cook. The addition addresses turnover issues and allows the agency to comply with statutes and policy regarding how long temporary positions may be used.

OPRD – Facility Investments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	18,166,425	18,513,186	18,165,128	18,080,140
Other Funds	1,846,403	3,615,358	3,615,358	3,615,358
Federal Funds	345,714	1,465,000	1,465,000	1,465,000
Total	**20,358,542**	**23,593,544**	**23,245,486**	**23,160,498**
FTE	14.00	17.00	18.00	12.00

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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $23.2 million and 12.0 FTE. A technical adjustment totaling $681,036 was approved to eliminate inflation in order to maintain expenditures at the same dollar amount as originally approved for facility improvements in 1999 ($15 million). In addition, $883,446 was shifted from personal services expenditure category to services and supplies expenditure category, with a corresponding transfer of six positions from the Facility Investment Program to the Operations Program. Finally, $84,988 Lottery Funds is reduced due to an employee compensation freeze and the PERS employer rate reduction.

OPRD – Nonlimited

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	1,925,901	3,735,328	3,866,065	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.

Legislatively Adopted

The Legislature approved a budget of $3.9 million.

Water Resources Department (WRD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	21,048,321	22,370,031	22,266,526	19,086,885
Other Funds	5,546,080	4,988,719	5,759,208	7,271,122
Federal Funds	408,673	999,721	1,295,000	1,264,700
Nonlimited	1,827,943	1,122,688	359,103	359,103
Total	**28,831,017**	**29,481,159**	**29,679,837**	**27,981,810**
FTE	154.88	150.24	143.21	140.21

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,587,385	2,476,849	3,078,589	2,963,856
Other Funds	38,546	193,756	214,389	132,842
Total	**2,625,931**	**2,670,605**	**3,292,978**	**3,096,698**
FTE	13.00	11.00	11.50	10.50

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 worked 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget for Administrative Services of $3,096,698, representing a 16% increase from the 2001-03 legislatively approved level, and 11 positions (10.50 FTE). The Division's budget is primarily supported by the General Fund (96% of the total). The adopted budget includes standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies. The budget also eliminated one vacant Accounting Technician 1 (1.0 FTE) position.

The adopted budget also includes funding for the agency's move and higher rent at the new North Mall state office building. The agency will pay rent for an additional 8,500 square feet of space. The rent rate for the new space is higher because it repays debt for the construction of the building.

WRD – Field Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,630,054	7,156,293	8,716,159	6,458,042
Other Funds	963,001	1,148,825	1,584,867	3,263,163
Federal Funds	1,536	4,721	0	0
Total	**8,594,591**	**8,309,839**	**10,301,026**	**9,721,205**
FTE	64.67	63.03	63.00	62.00

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 in stream 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. The 2003-05 legislatively adopted budget includes a one-time fund shift of Other Funds from the Pacific Coastal Salmon Recovery program to replace General Fund for activities the agency performs related to the Oregon Plan.

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.

Legislatively Adopted Budget

The legislatively adopted budget of $9,721,205 total funds and 62 positions (62.0 FTE) represents a 17% increase from the 2001-03 legislatively approved level following special session reductions. The adopted budget includes $6.5 million General Fund, a 10% reduction from the 2001-03 approved level and a 26% reduction from the Governor's budget. The reduced amount of General Fund was the result of a one-time fund shift of activities the Department performs related to the Oregon Plan for salmon recovery. The Legislature shifted $2 million from federal Pacific Coastal Salmon Recovery program funds and the Measure 66 Lottery Funds received by the Oregon Watershed Enhancement Board to the Field Services Division to support 13 positions (12.0 FTE) and related services and supplies previously funded with General Fund.

The legislatively adopted budget also includes:

- a technical adjustment to eliminate two positions (2.0 FTE);
- additional Other Funds expenditure limitation and the establishment of two limited duration positions to address the backlog of water right transfers;
- authorization to restore a Natural Resource Specialist position eliminated during the 2002 special sessions as limited duration for the 2003-05 biennium; and
- standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

WRD – Technical Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	5,979,661	8,074,795	5,883,136	5,467,015
Other Funds	1,335,419	2,144,151	2,260,662	2,268,137
Federal Funds	407,137	995,000	995,000	995,000
Total	**7,722,217**	**11,213,946**	**9,138,798**	**8,730,152**
FTE	40.00	43.00	37.00	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.

Legislatively Adopted Budget

The legislatively adopted budget of $8,730,152 total funds and 37 positions (37.0 FTE) represents a 22% decrease from the 2001-03 legislatively approved level following special session actions. The adopted budget includes $5.5 million General Fund, a 32% reduction from the 2001-03 approved level and a 7% reduction from the Governor's budget. The General Fund reduction included a one-time fund shift of Oregon Plan related activities to federal Pacific Coastal Salmon Recovery dollars and Measure 66 Lottery Funds received by the Oregon Watershed Enhancement Board and spent as Other Funds to support a hydrographics position and related services and supplies that had been previously funded with General Fund.

The adopted budget also included additional resources for an upgrade to the ground water database funded with revenue from Start Card fees, including authorization for the establishment of a limited duration data entry position in the program. The budget also incorporates standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

WRD – Water Rights/Adjudication Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,182,975	2,297,839	2,222,462	1,963,426
Other Funds	1,169,841	1,102,510	1,284,484	1,315,565
Federal Funds	0	0	300,000	269,700
Total	**3,352,816**	**3,400,349**	**3,806,946**	**3,548,691**
FTE	27.21	24.21	22.71	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.

Legislatively Adopted Budget

The legislatively adopted budget of $3,548,691 total funds and 23 positions (22.71 FTE) represents a 4% increase from the 2001-03 legislatively approved level following special session actions. The adopted budget includes $2.0 million General Fund, a 15% reduction from the 2001-03 approved level and a 12% reduction from the Governor's budget. The General Fund reduction included a one-time fund shift of Oregon Plan related activities to federal Pacific Coastal Salmon Recovery program dollars and Measure 66 Lottery Funds received by the Oregon Watershed Enhancement Board and spent as Other Funds to support a water rights position and related services and supplies that had been previously funded with General Fund.

The adopted budget also includes approximately $400,000 additional General Fund and two limited duration positions to continue activities associated with the Klamath Basin Adjudication. The budget also incorporates standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

WRD – Director's Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,118,246	1,834,128	2,091,180	1,959,546
Other Funds	100,746	3,175	3,598	3,235
Nonlimited	0	1	0	0
Total	**2,218,992**	**1,837,304**	**2,094,778**	**1,962,781**
FTE	8.00	7.00	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.

Legislative Adopted Budget

The legislatively adopted budget of $1,962,781 total funds and 7 positions (7.0 FTE) represents a 7% increase from the 2001-03 legislatively approved level following special session actions. The adopted budget includes standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

WRD – Water Development Loan Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	550,000	530,127	275,000	275,000
Other Funds	1,938,527	396,302	411,208	288,181
Nonlimited	1,827,943	1,122,687	359,103	359,102
Total	**4,316,470**	**2,049,116**	**1,045,311**	**922,283**
FTE	2.00	2.00	2.00	1.00

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, however, there were no additional loans funded from the Water Development Loan Fund.

Legislatively Adopted Budget

The legislatively adopted budget of $922,283 total funds and one position (1.0 FTE) represents a decline of 55% from the 2001-03 legislatively approved level following special session actions. The Legislature approved a reduction in the General Fund provided to as partial coverage of debt service needs, from the $550,000 per biennium level established in 1999 to a total of $275,000. A vacant Program Technician position in the Water Development Loan program was eliminated. The adopted budget also includes standard technical adjustments including reductions for elimination of employee merit increases, reductions in various government service charges, and elimination of inflationary increases in services and supplies.

Oregon Watershed Enhancement Board (OWEB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,198,212	1,024,212	101,280	0
Lottery Funds	13,773,426	48,793,122	32,303,598	30,408,498
Other Funds	1,826,468	2,274,939	1,826,568	2,377,089
Federal Funds	4,156,795	28,965,600	22,580,000	38,678,858
Total	**21,954,901**	**81,057,873**	**56,811,446**	**71,464,445**
FTE	15.10	23.00	20.00	22.50

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 revenue. Ballot Measure 66, passed by the voters in November 1998, amended Section 4, Article XV of the Oregon Constitution to dedicate 15% of net lottery proceeds to be split between state parks and salmon, watershed, and habitat restoration. 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. 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 dedicated 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 expenditures.

OWEB – Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,198,212	1,024,212	101,280	0
Lottery Funds	5,122,981	6,013,363	7,191,260	5,138,221
Other Funds	1,826,468	2,274,939	1,826,568	2,377,089
Federal Funds	4,156,795	28,965,600	22,580,000	38,678,858
Total	**13,304,456**	**38,278,114**	**31,699,108**	**46,194,168**
FTE	15.10	23.00	20.00	22.50

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 such as funding for education and technical assistance; and watershed improvement grants that are capital expenditures.

Revenue Sources and Relationships

Based on the 2001-03 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) assumed $49.2 million Lottery Funds (Measure 66) would be available for the Restoration and Protection Subaccount in the 2003-05 biennium for salmon and watershed purposes. The May 2003 Lottery Forecast, which was used to develop the 2003-05 budget, assumed $50.3 million. In addition to this amount, $0.6 million of Lottery Funds for non-capital expenditures and $3.8 million of Lottery Funds for capital expenditures remaining unallocated at the end of the 2001-03 biennium were allocated for expenditure during the 2003-05 biennium. Inclusion of these carryover amounts increased the total Measure 66 Lottery Funds available for expenditure in 2003-05 to a total of $54.7 million. Based on the constitutional split between operations and capital expenditures, no more than $18.2 million of this total dedicated Lottery funding 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, the Emergency Board later approved OWEB's submittal of a grant application for $17 million in PCSRF funds and increased the agency's Federal Funds expenditure limitation $5 million to reflect the grant amount the agency anticipated expending during the remainder of the biennium.

Legislatively Adopted Budget

The legislatively adopted budget for OWEB includes a total of $46.2 million for Operations. The adopted budget represents over a 20% increase from 2001-03 legislatively approved expenditure levels. This change is due in part to a $10.6 million increase in Federal Funds from the Pacific Coastal Salmon Recovery Program created by including the FFY 2003 grant amount in the approved budget. General Fund support for OWEB was eliminated due to the phase-out of $0.9 million carried forward from the 1999-01 biennium and elimination of

General Fund support for the Lower Columbia River Estuary Project. The adopted budget supports a total of 23 positions (22.50 FTE).
The adopted budget for the Operations program includes the following funding changes:

- $11.8 million Federal Funds was added to reflect the portion of the $17 million FFY 2002 Pacific Coastal Salmon Recovery Fund (PCSRF) grant not expended in the 2001-03 biennium.
- $10.6 million Federal Funds was added to accommodate the FFY 2003 PCSRF grant which was not included in the Governor's budget.
- A one-time shift of $1.4 million Lottery Fund included in the Governor's budget for support of Watershed Council operations was moved to PCSRF Federal Funds.
- $952,214 Federal Funds was added for a grant from the United States Fish and Wildlife Service (USFWS) for acquisition of land adjacent to Yaquina Bay for conservation purposes. The grant is from the National Coastal Wetlands Conservation Grant Program. Federal Funds limitation was provided with the understanding the Department of Administrative Services (DAS) would unschedule the limitation pending receipt of a report by OWEB to the Emergency Board on any uplands considered for purchase as part of the grant project.
- $750,000 Federal Funds was added for a grant from USFWS for acquisition of land along the Necanicum River for conservation purposes. Federal Funds limitation was provided with the understanding that DAS would unschedule the limitation pending receipt of a report by OWEB to the Emergency Board on the criteria it uses when considering land acquisition grants.
- $99,259 Lottery Funds reductions for actions associated with implementation of the state-wide salary freeze, reduced inflation allowances, and lower Attorney General and DAS assessment rates.
- $211,661 Lottery Funds was reduced and $600,000 Federal Funds from the PCSRF grant was added to support Independent Multidisciplinary Science Team operations. Funding from PCSRF was provided on a one-time basis.
- $200,000 Lottery Funds was added to move funding for 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. The Governor's budget had included $101,280 General Fund which the Legislature eliminated.

The following table shows the allocation of all PCSRF Federal Funds and Measure 66 Lottery Funds in the Department of Fish and Wildlife, the Department of Environmental Quality, the Water Resources Department, the Department of Forestry, the Department of Agriculture, and the Oregon Watershed Enhancement Board. These actions made $20.4 million General Fund available for use in the statewide balanced budget plan and, at the same time, made it possible to fund state agency responsibilities under the Oregon Plan for Salmon and Watersheds at previous levels of support while avoiding any significant reductions.

2003-05 Measure 66 Lottery and PCSRF Federal Allocations

	General Fund	M-66 Operations	M-66 Capital	PCSRF
Available Resources (May '03 M-66 forecast and 01-03 unallocated)		$ 18,244,226	$ 36,498,645	$ 25,852,000
Congressional Earmarks (Fish marking equipment)				3,194,323
Oregon Dept. of Fish & Wildlife (ODFW)	(2,133,559)	276,200	8,000,000	6,628,995
Oregon State Police/ODFW	0	4,926,750	846,821	0
Dept. of Environmental Quality	(4,754,253)	3,375,000	0	1,379,253
Water Resources Department	(2,000,000)	0	0	2,000,000
Oregon Watershed Enhancement Board	0	5,262,013	24,221,497	4,829,519
Dept. of Forestry	(4,719,910)	0	0	4,719,910
Dept. of Agriculture	(6,792,875)	4,375,000	3,430,327	3,100,000
Total Allocated	$ (20,400,597)	$ 18,214,963	$ 36,498,645	$ 25,852,000
Remaining Unallocated		$ 29,263	$ -	$ -

OWEB – Capital Construction Projects

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	8,650,445	42,007,418	24,897,338	24,221,497
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 May 2003 revenue forecast of $50.3 million Lottery Funds available for salmon and watershed restoration in the 2001-03 biennium and the inclusion of funds remaining unallocated from 2001-03, at least $36.5 million is required for use on eligible capital expenditure activities. Of the amount, the legislatively adopted budget provides $24.2 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.

Legislatively Adopted Budget

The legislatively adopted budget for OWEB Capital Construction Projects totals $24.2 million, a decrease of 42% from the 2001-03 approved levels. This decrease is due to the inclusion of $15.8 million carry forward from 1999-01 in the 2001-03 approved budget. If the carry forward amount is excluded from the 2001-03 total, the decrease would be 7.6%. OWEB now receives six-year capital expenditure limitation which removes the need to include carryover funding from previous biennia each budget cycle. The remaining $12.2 million of the total $36.5 million of Measure 66 capital expenditures is distributed to other agencies, including the Department of Agriculture ($3.4 million) for protection of riparian and wildlife habitat through weed and invasive species control, 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 ($8 million) for the continuation and enhancement of cooperative fish screening, fish by-pass device, and fish passage programs as well as construction of a hatchery research center. 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	0	772,341	215,000	1,048,780
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 derived 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 a study of fish deformities in the Newberg pool of the Willamette River and a Department of Forestry study on the effectiveness of state required forest practices.

Legislatively Adopted Budget

The legislatively adopted budget includes $398,780 to complete the study of Willamette River Toxins and continue the Hinkle Creek Paired Watershed study on the effectiveness of Oregon's forest practices regulations. The adopted budget also includes $650,000 for continuation of the Conservation Hatchery Improvement Program. In addition, $1.2 million was allocated directly to the Department of Fish and Wildlife to convert the Fall Creek Hatchery into a Hatchery Research Center. The Fall Creek Hatchery Research Center is expected to provide valuable insight into the interaction of hatchery reared salmonids with wild fish and investigate methods of raising fish that will mitigate any negative impacts on wild fish populations.

TRANSPORTATION

Oregon Department of Aviation (Aviation) – Agency Totals

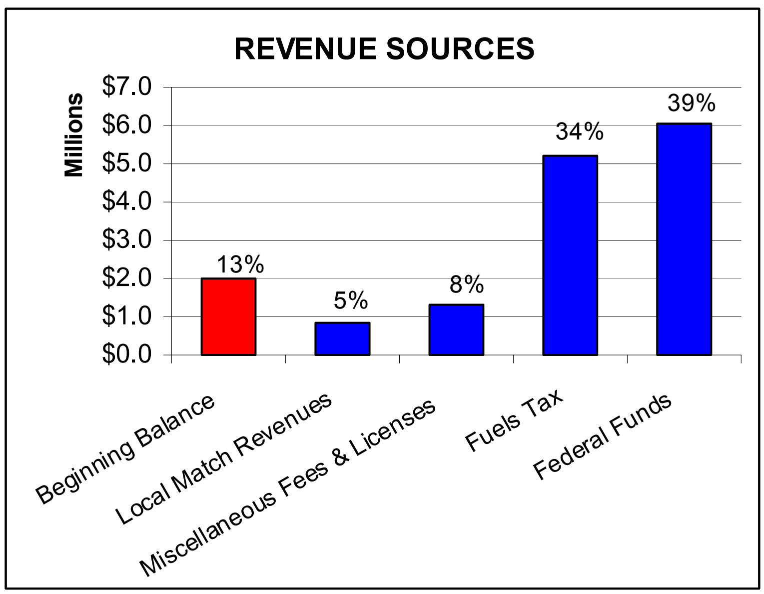
	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	100,567	0	0	0
Other Funds	9,084,871	18,991,177	16,026,262	13,990,208
Total	**9,185,438**	**18,991,177**	**16,026,262**	**13,990,208**
FTE	15.79	16.00	15.50	16.00

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. Total estimated revenue for 2003-05 is $15,406,736. The revenue is made up of about 34% fuels tax, 39% Federal Funds (spent as Other Funds), and 13% beginning fund balance, with the remainder from other revenue sources, such as registration fees, leases, search and rescue, 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 projected 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 during 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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $13,990,208 and 16.00 FTE. This is $2,036,054 less than the Governor's budget. The Legislature approved design work on a new agency office building, grants to municipalities, information technology needs, and aircraft hangar construction.

Technical adjustments resulting in a net decrease of $275,327 Other Funds include reductions supporting statewide policy decisions and other needed changes as follows:

- Elimination of 3.5% inflation factor originally built into the budget for most services and supplies, capital outlay, and special payment line items. Inflationary increases for Attorney General fees and state government service charges were retained.
- Elimination of projected expenditures for employee merit increases scheduled to occur after July 1, 2003.
- A reduction for Attorney General rates due to a rate change from $109 to $98 per hour.
- A reduction due to lower Department of Administrative Services assessments and lower toll-free telephone rates.
- A decrease to convert expenditure, in the special payments category, to a revenue transfer.
- An increase to cover the ongoing expenses of a position that was reclassified after budget development.
- A reduction of $83,290 to incorporate the impact of legislation to reduce the PERS employer rates.

Aviation – Operations Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	4,547,945	14,513,939	7,827,043	7,624,029
FTE	15.79	16.50	15.50	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. Considerable 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);
- an 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.

Legislatively Adopted Budget

The Legislature approved a budget of $7,624,029 Other Funds and 16 positions (15.50 FTE). The net change to the budget is a decrease of $203,014 from the Governor's budget. Technical adjustments for inflation; merit increases; Attorney General rates; Department of Administrative Services charges; toll-free rates; and position costs decreased the budget by $193,816. A reduction of $83,290 was also approved to incorporate the impact of legislation to reduce the PERS employer rates.

The Legislatively adopted budget includes:

- $400,000 Other Funds for grants to municipally owned airports, an increase of $250,000 over the Governor's recommended budget.
- $50,000 Other Funds for an Aircraft Registration Database together with a Pilot Registration database under the Search and Rescue Program for a total project of $100,000. The new system is expected to be simpler to maintain, easier to operate, and able to support self-registration and cash management. A budget note requires the Department to report to the interim Joint Legislative Committee on Information and Management and the Emergency Board on the details of the project and costs.
- $142,000 to refine plans for replacement of the Aviation Salem Office Building, a decrease of $177,438 from the Governor's recommended budget. To better define the project's scope of work, the Legislature approved the expenditure limitation to pay for a preliminary site survey, environmental testing, and building design options.

Aviation – Search and Rescue Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	122,405	127,056	183,218	100,177
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. 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.

Legislatively Adopted Budget

The Legislature approved a budget of $100,177 and 0.50 FTE. The net change to the budget is a decrease of $83,041 from the Governor's budget. Technical adjustments include adjustments for inflation and the conversion of a payment to the Office of Emergency Management into a revenue transfer. This conversion eliminates a duplication of expenditures and better reflects the programmatic relationship between the two agencies. The Legislature approved $50,000 for the Search and Rescue portion of the Pilot Registration Database. A reduction of $1,530 was also approved to incorporate the impact of legislation to reduce the PERS employer rates.

Aviation – General Aviation Entitlement Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	0	0	6,016,000
FTE	0.00	0.00	0.00	0.00

Program Description

This program provides for the state administration of the federal General Aviation Entitlement grant program.

Revenue Sources and Relationships

The primary source of revenue for this program is through dedicated federal grants awarded by the FAA under the General Aviation Entitlement program. Federal funds and local community match funds pass through the Aviation's budget to fund this program.

Budget Environment

There are 46 airports in Oregon eligible for the federal funds. The Department serves as grant sponsor to coordinate and administer the distribution of these entitlement funds to Oregon's smaller eligible airports. Each of the airports can be allocated up to $150,000 per year and annual allocations can be banked for up to three years for a maximum of $450,000. The Department projects 23 airports will complete projects during the biennium.

Legislatively Adopted Budget

The Legislature approved a budget of $6,016,000 Other Funds for professional services that are necessary to complete projects, such as planning, surveying and design, and construction costs.

Aviation – Capital Improvement Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	39,521	0	0	0
Lottery Funds	100,567	0	0	0
Other Funds	0	339,250	0	250,000
Total	**140,088**	**339,250**	**0**	**250,000**
FTE	0.00	0.00	0.00	0.00

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.

Legislatively Adopted Budget

The Legislature approved capital improvement construction projects in the amount of $250,000 Other Funds to pay for the construction of an aircraft hangar building at one of the state-owned airports.

Aviation – Capital Construction Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	4,375,000	339,250	8,016,001	2
FTE	0.00	0.00	0.00	0.00

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 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 $23 million in federally eligible projects for the years 2003 through 2009.

Legislatively Adopted Budget

The Legislature approved $2 in Other Funds expenditure limitation. The Governor's budget supported $2 million in Capital Construction expenditures for demolition of the existing agency office building and construction of a new building and $6 million for the General Aviation Entitlement Program. The Legislature reduced the Capital Construction budget for the agency office building project down to $1. This recommendation does not approve the new building, but provides a mechanism for the Legislature to approve the project during the interim if it so desires. The Legislature also approved a $1 Other Funds expenditure limitation as a place holder for improvements at the Cottage Grove Aviation facility and moved $6 million expenditure limitation to a new operating program unit for General Aviation Entitlement described above.

Department of Transportation (ODOT) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	19,928,088	17,114,943	12,158,487	3,914,616
Lottery Funds	17,629,962	10,201,991	26,527,418	21,145,902
Other Funds	1,526,664,936	1,724,824,860	1,970,697,892	1,967,066,393
Federal Funds	33,892,107	69,775,066	70,230,235	69,297,154
Nonlimited	53,498,713	64,919,035	94,923,488	93,980,370
Total	**1,654,572,196**	**1,886,835,895**	**2,174,537,520**	**2,155,404,435**
FTE	4727.05	4730.69	4686.26	4585.68

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 General Fund is used to partially fund passenger rail service in the Willamette Valley. The following Table summarizes the Department's major sources of revenue.

Revenue Source	2001-03 Estimated	2003-05 Governor's Rec. Bud.	2003-05 Legislatively Adopted
Beginning Balance	$160,643,070	$518,234,950[1]	$ 510,863,407
General Fund	18,651,017	12,158,487	3,914,616
Lottery Funds	20,197,845	26,527,362	21,145,846
Federal Revenue	60,125,125	70,728,458	69,795,377
Other Funds:			
Federal Revenues as Other	573,063,976	654,609,491	654,609,491
Motor Vehicle Fuels Tax	808,903,144	826,063,577	830,209,740
Vehicle Licenses	224,931,892	235,628,178	356,248,178
Drivers' Licenses	71,031,501	71,019,331	71,841,192
Other Licenses and Fees	8,161,647	11,874,044	11,874,044
Weight Mile Tax & Fees	407,496,758	431,006,146	476,956,146
Revenue Bonds	352,257,223	165,515,073	195,572,000
Interest Income	16,490,761	25,246,710	25,246,710
Sales Income	13,870,791	14,858,636	14,858,636
Charges for Services	53,389,956	55,685,390	53,819,931
Other Misc. Revenues	27,938,611	18,925,015	20,041,205
Transfers In (Revenue, etc.)	49,751,659	95,968,629	95,968,629
Subtotal, Revenues	**2,866,904,976**	**$3,234,049,477**	**$3,412,965,148**
Transfers to Other Agencies	(53,083,315)	(53,640,792)	(63,206,520)
Transfers to Cities and Counties	(493,900,926)	(497,613,706)	(572,240,006)
Revenues Available for Expenditure	**2,319,920,735**	**$2,682,794,979**	**$2,777,518,622**

[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. 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. The Legislature adopted a plan to provide new revenue to finance $1.9 billion in highway user tax bonds for bridge repair and modernization projects over the next eight years. For the 2003-05 biennium, $100 million in bonds will be issued for bridges.

Congress will begin writing a new transportation bill in 2003. The current bill, the Transportation Equity Act for the 21st Century (TEA-21), expired September 30, 2003. Congress extended authorizations for federal highway, highway safety and transit programs until February 29, 2004. 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 continue 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 budget to fund the operation of a portion of high speed rail at $750,000 and $7 million in other programs in Public Transit and Transportation Safety.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $ 2.15 billion, a 0.8% decrease from the Governor's budget, and 4,692 positions (4,581.68 FTE). The budget includes $278.2 million for highway construction projects supported by the highway user bonds, five limited duration positions to address access management issues in the regions, 11 positions to support the Oregon Transportation Investment Act (OTIA) project delivery, three positions transferred from the Department of Land Conservation and Development for Transportation Growth Management activities, and additional resources for the Highway Cost Responsibility Study. The budget also adds expenditure limitation and positions to implement HB 2041, which provides $2.5 billion to improve Oregon's highways, roads, and streets over the next 10 years. The budget shifts support for current activities related to senior and disabled transit operations and equipment from General Fund to Other Funds derived from identification card fee revenue and Transportation Operating Fund resources. In addition, the budget adds $5 million to continue the Immediate Opportunity Grant program for road projects and continues support for senior and disabled transit operations and equipment and for high-speed rail and buses.

Several position reclassifications were approved to address new skill requirements, including those needed for alternative project delivery, while 21 new positions recommended in the Governor's budget were not approved. Many of these actions are funded through the elimination of positions or reduction of other expenditures. In addition, the budget eliminates 143 vacant positions (93.23 FTE) agency-wide. Some of the savings are used to fund other position actions, temporary employees, or professional services contracts for increased work load requirements.

The Legislature made standard statewide reductions to the agency's budget, including the following decreases shown in total funds:

- $17.9 million to eliminate a 3.5% inflation factor originally built into the budget for most services and supplies, capital outlay, and special payment line items. Adjustments for Attorney General rates and state government service charges are handled in separate action.
- $7.7 million to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003.
- $492,081 to accommodate an Attorney General rate change, which reduced the charge to agencies from $109 to $98 per hour.
- $1.5 million to reflect reductions made in the Department of Administrative Services budget, which is supported by agency assessments.

These reductions result in an increased ending balance of $27 million. The Legislature anticipates the Department will request additional expenditure limitation for pavement preservation projects from the Emergency Board as a result of the increased ending balance.

ODOT – Highway Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,186,880,665	1,311,606,111	1,560,004,920	1,530,555,484
FTE	2,668.46	2,564.51	2,571.62	2,505.48

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 Legislatively Adopted
Beginning Balance	$ 57,022,096	$ 22,094,248	$ 131,731,496	$ 441,510,054
Federal as Other	556,772,332	523,640,872	527,000,000	604,792,563
State Other	714,118,126	714,361,985	698,413,095	845,820,247
State Revenue Bonds	0	58,515,056	350,000,000	150,000,000[1]
Total Funds	**$1,327,912,544**	**$1,318,612,161**	**$1,707,144,591**	**$2,042,122,864**

[1] Revenue bond amounts for 2003-05 do not include HB 2041 authorized bonds.

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 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.

Legislatively Adopted Budget

The Legislature approved a budget of $1.5 billion Other Funds and 2,568 positions (2,505.48 FTE), $248.4 million more than the 2001-03 legislatively approved expenditure level. The budget reflects an increase of $116 million for road and bridge preservation work and an additional $43 million for modernization work. The Department is expected to request an additional $100 million Other Funds expenditure limitation from the Emergency Board for implementation of bridge repair, pavement preservation, modernization, and safety work during the 2003-05 biennium as a result of the Legislature's approval of HB 2041 authorizing revenue bonds. Specific budget changes are described in the individual Highway Division program units.

ODOT – Highway Maintenance and Emergency Relief

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	289,245,178	289,975,669	303,940,591	288,072,015
FTE	1,351.76	1,311.08	1,227.03	1,175.47

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 and 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.

Legislatively Adopted Budget

The Legislature approved a budget of $288 million Other Funds and 1,211 positions (1,175.47 FTE). Technical adjustments decreased the budget by $12.5 million Other Funds for the elimination of inflation, freezing merit increases, lowering Attorney General rates, reducing Department of Administrative Services charges, and PERS employer rates. The approved 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. A total of 40 vacant positions were eliminated for a decrease of 27.93 FTE and $2.8 million Other Funds. To retain program capacity, $1.8 million of this reduction was restored in temporary and professional services.

The Legislature also approved elimination of eleven positions and the reclassification of eight positions to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of nine positions (6.91 FTE) and $575,071 Other Funds. A technical adjustment was approved increasing the position count by nine, decreasing 9.36 FTE, and reducing $830,806 Other Funds to reconcile between the Position Information Control System (PICS) and the Oregon Budget Information Tracking System (ORBITS).

ODOT – Highway Preservation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	214,511,377	277,252,159	313,098,216	310,473,611
FTE	24.03	244.39	241.17	233.75

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.

Legislatively Adopted Budget

The Legislature approved a budget of $310 million Other Funds and 234 positions (233.75 FTE). Technical adjustments reduced the budget by $2.9 million Other Funds for the elimination of inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. Four vacant positions were eliminated at 4.0 FTE, resulting in a decrease of $441,210 Other Funds. To retain program capacity, $63,480 of this reduction was restored in professional services. The budget adds $35 million Other Funds for implementation of preservation projects from bond proceeds approved by the 2001 Legislature and adds a limited duration Transportation Engineer 2 for 18 months (0.75 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 Legislature added a budget note directing the Department to report on the performance of access permitting and customer satisfaction with processes implemented by the Department to issue the access permits. The Legislature approved a reduction in services and supplies of $1.6 million Other Funds to support an intrafund transfer to Capital Construction for construction of one of two phases for a new maintenance station facility in Portland.

The following agency requested technical adjustments were approved:

- Elimination of one position and reclassification of one position to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of one position (0.50 FTE) and $76,756 Other Funds.
- Elimination of five positions (2.75 FTE) and reducing Other Funds by $216,840 to reconcile PICS with ORBITS.

ODOT – Highway Bridge

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	118,093,066	143,563,279	227,343,319	225,424,654
FTE	17.83	142.54	142.17	153.25

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.

Legislatively Adopted Budget

The Legislature approved a budget of $225 million Other Funds and 159 positions (153.25 FTE). Technical adjustments decreased the budget by $3.2 million Other Funds for the elimination of inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. No positions were eliminated to capture vacancy savings in this program unit. The approved budget adds $43.7 million Other Funds to implement bridge preservation projects from bond proceeds approved by the 2001 Legislature; $291,388 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 limited duration Transportation Engineer 2 for 18 months (0.75 FTE) to address plans and document strategies for access management issues related to bridge projects. The approved 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 Legislature added $1.8 million Other Funds and 18 positions (12.50 FTE) for implementation of HB 2041. Thirteen of these positions were approved as permanent, full-time positions. The remaining five positions were established as 12-month limited-duration.

The following agency requested technical adjustments were approved:

- Abolish a position (Engineering Specialist 1) to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of one position (1.0 FTE) and $97,674 Other Funds.
- Elimination of one position at 0.25 FTE and reducing Other Funds by $16,670 to reconcile PICS and ORBITS.

ODOT – Highway Safety

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	38,335,574	53,773,979	46,911,230	46,059,068
FTE	9.64	43.21	42.92	42.25

Program Description

The Highway 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.

Legislatively Adopted Budget

The Legislature approved a budget of $46 million Other Funds and 43 positions (42.25 FTE). Technical adjustments decreased the budget by $817,751 Other Funds for the elimination of inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. The budget reflects a phase out of $5.7 million Other Funds in STIP project payment adjustments. No positions were eliminated to capture vacancy savings in this program unit. The approved budget adds one limited duration Transportation Engineer 2 for 18 months (0.75 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. The following agency requested technical adjustments were approved:

- Abolish two positions to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of two positions (0.50 FTE) and $33,030 Other Funds.
- Reduce Other Funds expenditures by $1,381 to reconcile PICS with ORBITS

The Legislature also approved a rebalance of 2001-03 expenditure limitation among highway programs, increasing Highway Safety's expenditure limitation by $2 million Other Funds. This change accommodates fluctuations in project payouts and has a net zero impact agency-wide.

ODOT – Highway Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05Legislatively Adopted
Other Funds	31,339,662	54,863,272	35,935,619	33,344,678
FTE	14.42	110.95	119.25	114.83

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.

Legislatively Adopted Budget

The Legislature approved a budget of $33 million Other Funds and 118 positions (114.83 FTE). Technical adjustments resulted in a decrease of $2.3 million Other Funds for eliminating inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. In addition two vacant positions were eliminated at 2.0 FTE for savings of $255,869 Other Funds. The approved budget reflects a reduction of $4.3 million Other Funds to adjust the other payroll expenses related to compensation plan adjustments 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 approved budget adds a limited duration Transportation Engineer 2 for 18 months (0.75 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 approved budget shifts $85,891 Other Funds from services and supplies to Central Services to help pay for adding contracted information systems expertise 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 following agency requested technical adjustments were approved:

- Abolish five positions (1.25 FTE) and decrease Other Funds by $82,575 to help support position actions in other programs.
- Reduction of 1.0 FTE to reconcile PICS with ORBITS.

The Legislature also approved a 2001-03 rebalance of expenditure limitation among highway programs, decreasing Highway Operation's expenditure limitation by $2 million Other Funds. This change accommodates fluctuations in project payouts and has a net zero impact agency-wide.

ODOT – Highway Modernization

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	238,515,033	167,971,032	256,046,292	252,625,831
FTE	16.89	201.83	181.92	174.50

Program Description

The Highway 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.

Legislatively Adopted Budget

The Legislature approved a budget of $253 million Other Funds and 175 positions (174.50 FTE). Technical adjustments decreased the budget by $3 million Other Funds by eliminating inflation; freezing merit increases; lowering Attorney General and PERS employer rates; and eliminating 13 vacant positions (4.75 FTE), decreasing Other Funds by $459,175. To retain program capacity, $397,623 of this reduction was restored in temporary employee and professional services. The approved budget adds $66.3 million to implement Modernization projects from bond proceeds approved by the 2001 Legislature and one limited duration Transportation Engineer 2 for 18 months (0.75 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 approved budget reduces overtime payments by $1.5 million to balance current revenue projections to expenses.

The Legislature approved a technical adjustment eliminating three positions (2.50 FTE) and reducing Other Funds by $254,822 to reconcile PICS with ORBITS.

The Legislature also approved a 2001-03 rebalance of expenditure limitation among highway programs, increasing Modernization's expenditure limitation by $14 million Other Funds. This change accommodates fluctuations in project payouts and has a net zero impact agency-wide.

ODOT – Highway Special Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	132,506,213	164,740,363	162,434,641	161,504,203
FTE	1212.74	487.67	582.72	576.91

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*** (9.65 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*** (10.0 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*** (244.96 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* (42.13 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.

Legislatively Adopted Budget

The Legislature approved a budget of $162 million and 593 positions (576.91 FTE). Technical adjustments decreased the budget by $5.6 million Other Funds for eliminating inflation; freezing merit increases; lowering Attorney General and PERS employer rates; and reducing Department of Administrative Services charges. Thirty one vacant positions were eliminated for a decrease of 17.18 FTE and $1.8 million Other Funds. To retain program capacity, $443,118 of this reduction was restored in temporary and professional services. The Legislature approved the following agency-requested technical adjustments:

- The elimination of one position, addition of two positions, and the reclassification of two positions to accommodate the shifting skill requirements and evolving program needs. The net impact is an increase of one position (1.29 FTE) and $269,602 Other Funds.
- Reconciliation of PICS with ORBITS by increasing nine positions (9.0 FTE) and adding $1 million Other Funds.

The Legislature added $5 million Other Funds to the Immediate Opportunity Fund to support transportation aspects of economic development projects and approved the following policy packages:

- Reclassification of a Program Technician 2 to Principal Contributor 1 and Administrative Specialist 1 to Program Technician 1, without a salary step increase.
- 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 at Lake of the Woods; 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.
- An increase of $391,985 Other Funds and three positions (2.92 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.

The Legislature also approved a rebalance of 2001-03 expenditure limitation among highway programs decreased Special Program's expenditure limitation by $2 million Other Funds. This change accommodates fluctuations in project payouts and has a net zero impact agency-wide.

ODOT – Highway/Local Government Programs

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	124,334,562	154,866,358	209,532,753	208,633,502
FTE	21.15	22.84	21.44	22.52

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.

Legislatively Adopted Budget

The Legislature approved a budget of $209 million and 23 positions (22.52 FTE). Technical adjustments decreased the budget by $1 million Other Funds for eliminating inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. No positions were eliminated to capture vacancy savings in this program unit. The approved budget adds $40 million to implement Local Government projects from bond proceeds approved by the 2001 Legislature. The approved budget also increases the Other Funds expenditure limitation by $1.4 million and 6 positions (5.52 FTE) to meet workload needs driven by increases in project volume and scope of work. The following agency-requested changes were approved:

- The addition of two positions to accommodate shifting skill requirements and evolving program needs. The net impact is an increase of two positions (2.0 FTE) and $268,976 Other Funds.
- Reconcile PICS with ORBITS by adding $6,202 Other Funds.

The Legislature also approved a 2001-03 rebalance of expenditure limitation among highway programs, decreasing Local Government's expenditure limitation by $11 million Other Funds. This change accommodates fluctuations in project payouts and has a net zero impact agency-wide.

ODOT – Utility Permits

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	4,600,000	4,762,259	4,417,922
FTE	0.00	0.00	13.00	12.00

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.

Legislatively Adopted Budget

The Legislature approved a budget of $4.4 million Other Funds and 12 positions (12.0 FTE). Technical adjustments decreased the budget by $238,448 Other Funds for eliminating inflation, freezing merit increases, and reducing PERS employer rates. The Legislature also approved an agency-requested change to reconcile PICS with ORBITS by eliminating one position (1.0 FTE) and $105,889 Other Funds.

ODOT – Driver and Motor Vehicles

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	129,228	0	0	
Other Funds	114,845,588	125,251,326	126,813,500	121,316,715
Total	**114,974,816**	**125,251,326**	**126,813,500**	**121,316,715**
FTE	863.25	860.79	829.72	824.13

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.

Legislatively Adopted Budget

The Legislature approved a budget of $121 million Other Funds and 861 positions (824.13 FTE). 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 this reduction is to eliminate the special handling of dealer transactions increasing customer wait times and service quality. Core program services will continue. Technical adjustments decreased the budget by $5.9 million Other Funds for eliminating inflation, freezing merit increases, lowering Attorney General and PERS employer rates, and reducing Department of Administrative Services charges. Nine vacant positions were eliminated for a decrease of 6.17 FTE and $517,094 Other Funds. To retain program capacity, $170,628 of this reduction was restored in temporary services. The following agency-requested technical adjustments were approved:

- Elimination of one position and reclassification of two positions to accommodate the shifting of skill requirements and evolving program needs. The net impact is a decrease of one position (0.21 FTE) and $16,942 Other Funds.
- Reconcile PICS with ORBITS by decreasing five positions (3.21 FTE) and $154,657 Other Funds.
- Added $600,000 Other Funds to support payouts on 2001-03 information technology projects that will carry forward into 2003-05.

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 approved 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.

The approved budget establishes a permanent Program Technician 1 position (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 approved 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.

ODOT – Motor Carrier Transportation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	11,193	0	0	0
Other Funds	35,617,277	44,139,277	45,714,737	42,973,756
Federal Funds	2,903,211	6,182,863	6,232,167	6,126,511
Total	**38,531,681**	**50,322,140**	**51,946,904**	**49,100,267**
FTE	305.05	338.79	324.00	320.00

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.

Legislatively Adopted Budget

The Legislature approved a budget of $49 million Other Funds, $6.1 million Federal Funds, and 320 positions (320.0 FTE). 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 13 positions (13.0 FTE). The approved budget restores the International Fuel Tax Agreement (IFTA) license fee, increasing the budget by $1.8 million and 12 positions (11.52 FTE). The 2001 Legislature directed the Department to establish a fee to recover costs associated with this program. Technical adjustments decreased the budget by $2.7 million total funds for eliminating inflation, freezing merit increases, lowering Attorney General and PERS employer rates, and reducing Department of Administrative Services charges. Three vacant positions were eliminated for a decrease of 3.0 FTE and $221,841 Other Funds. To retain program capacity, $135,696 of this reduction was restored in professional services. The following agency requested technical adjustments were approved:

- Elimination of one position and reclassification of two positions to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of one position (1.0 FTE) and $68,769 Other Funds.
- Reconcile PICS with ORBITS, reducing Other Funds by $59.
- Decreasing package expenditures by $14,312 Other Funds to implement a reclassification of positions without any salary step increases.

ODOT – Transportation Development

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	183,143	0	0	0
Other Funds	52,991,465	62,555,718	64,005,347	61,109,738
Federal Funds	129,143	175,958	184,338	176,302
Total	**53,303,751**	**62,731,676**	**64,189,685**	**61,286,040**
FTE	125.25	223.47	222.83	218.32

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*** (15.0 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*** (67.96 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*** (114.36 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.

Legislatively Adopted Budget

The Legislature approved a budget of $61 million Other Funds, $176,302 Federal Funds, and 224 positions (218.32 FTE). 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 approved 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. Technical adjustments decreased the budget by $2.4 million total funds for eliminating inflation, freezing merit increases, lowering Attorney General and PERS employer rates, and reducing Department of Administrative Services charges. Six vacant positions were eliminated for a decrease of 3.08 FTE and $425,611 Other Funds. To retain program capacity, $30,414 of this reduction was restored in temporary employee and professional services. The following agency requested technical adjustments were approved:

- Elimination of two positions, reclassification of nine positions, and the addition of months on two positions to accommodate shifting skill requirements and evolving program needs. The net impact is a decrease of two positions (0.41 FTE) and $69,797 Other Funds.
- Reconcile PICS with ORBITS by decreasing one position (0.34 FTE) and $140,411 Other Funds.

The following policy packages were approved:

- 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.
- Retaining $175,793 Other Funds in professional services capacity to fund the traffic monitoring and engineering activities in these packages.
- 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.
- Highway Cost Responsibility Study was modified by eliminating one position, service and supplies expenditures at ODOT, and increasing the special payment to DAS by $150,000.
- Transportation Growth Management transfers four positions from the Department of Land Conservation and Development (DLCD) to ODOT to assist local governments with grant and contract processing, and transportation system plans. The package cost of $466,447 Other Funds is supported by a corresponding decrease in the special payment to DLCD.

ODOT – Public Transit Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	9,032,090	7,688,814	7,003,437	0
Other Funds	3,289,415	13,239,604	11,434,614	22,764,958
Federal Funds	11,298,424	27,022,379	27,120,323	27,018,434
Total	**23,619,929**	**47,950,797**	**45,558,374**	**49,783,392**
FTE	12.96	13.04	14.00	13.50

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*** (4.16 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*** (6.34 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 $243,000 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.

Legislatively Adopted Budget

The Legislature approved a budget of $22.8 million Other Funds, $27 million Federal Funds, and 14 positions (13.50 FTE). The approved 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 Legislature approved adding a Fiscal Analyst 2 position (0.5 FTE) to be shared with the Rail Division for budgeting and financial management in the program unit. The position would be supported by corresponding reductions in special payments for discretionary grants. The approved budget also includes implementing 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 General Fund is decreased by $2.5 million and $3.7 million Other Funds is added in anticipation of passage of HB 3231, which shifts excess identification card revenue to the program. The result is a net increase of $1.2 million for Senior and Disabled Transportation activities. In addition, the Legislature approved a backfill of $4.2 million General Fund with $4.2 million Other Funds from the Transportation Operating Fund. Technical adjustments decreased the budget by $451,544 total funds for eliminating inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. No positions were eliminated to capture vacancy savings in this program unit.

The Legislature added $2 million Other Funds to purchase mass transit vehicle replacements. This addition will be supported by flexible federal Surface Transportation Funds, which can be used for capital expenditure needs.

ODOT – Rail Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	10,572,434	9,264,079	5,155,050	3,914,616
Other Funds	9,773,190	34,970,551	29,728,406	62,263,136
Federal Funds	7,325,010	22,862,239	23,042,130	22,862,239
Total	**27,670,634**	**67,096,865**	**57,925,586**	**89,039,991**
FTE	19.55	26.88	27.50	25.50

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*** (3.5 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*** (3.0 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 $3.9

million General Fund and $4.9 million Other Funds from the Environmental Quality Information Account and 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 2002 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.

Legislatively Adopted Budget

The Legislature approved a budget of $3.9 million General Fund, $62.3 million Other Funds, $22.9 million Federal Funds, and 25 positions (25.50 FTE). The approved budget supports $35.4 million in Lottery bond proceeds for the South Metro Commuter Rail project, $2 million for Short Line Rail Infrastructure and $8 million for Industrial Rail Spur Infrastructure projects. The Legislature approved adding a Fiscal Analyst 2 position (0.5 FTE) to be shared with the Public Transit Division for budgeting and financial management in the program unit utilizing a mix of existing Other Fund revenues to support the position. The Legislature also approved the following policy packages:

- $58,779 Other Funds in rent payments to implement the Rail Division's portion of the Mill Creek Building Rent Pilot to the Support Services program unit. Rent payments are supported by decreases in other services and supplies line items.
- $1.1 million Other funds expenditure limitation for operation of the Lewis and Clark Celebration Excursion Train supported by donations and grants.
- $1.8 million Other Funds increase in special payments to support contract payments on rail crossing projects and the Amtrak Brooklyn Yard project.
- $4.9 million General Fund operating subsidy reduction for Willamette Valley passenger rail backfilled by a one-time shift of $4.9 million Other Funds from the Environmental Quality Information Account (EQIF), which consists of customized plate sale revenue authorized in HB 2148.

Technical adjustments include the elimination of inflation, freezing merit increases, and lowering Attorney General and PERS employer rates which resulted in a decrease of $712,727 total funds. One vacant position was eliminated for a decrease of 1.0 FTE and $97,875 General Fund.

The following agency-requested technical adjustments, fund shifts, and program enhancements were approved:

- Reclassify a Program Technician 1 to Program Technician 2 without a salary step increase.
- Reconcile PICS with ORBITS by decreasing 0.50 FTE positions.
- A category shift for an error correction, which moves $5.3 million Federal Funds from capital outlay to services and supplies to correct a 2001-03 budget development error.

ODOT – Transportation Safety Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	162,050	0	0
Other Funds	6,385,206	9,142,393	10,147,314	9,729,224
Federal Funds	12,056,575	13,415,611	13,594,104	13,057,617
Total	**18,441,781**	**22,720,054**	**23,741,418**	**22,786,841**
FTE	18.71	24.04	25.00	24.00

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.

Legislatively Adopted Budget

The Legislature approved a budget of $9.7 million Other Funds, $13.1 million Federal Funds, and 24 positions (24.00 FTE). The approved 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. Technical adjustments decreased the budget by $768,037 total funds for eliminating inflation and freezing merit increases. The Legislature also approved an agency-requested adjustment, which reduced Federal Funds by two dollars to reconcile PICS with ORBITS.

The following policy packages were approved:

- Rent Increase, which makes adjustments among several services and supplies line items to align the budget with estimated expenditures. The package results in no increase in expenditure limitation.
- Approval of reclassifying a Program Representative 1 upward to Program Representative 2 and reclassifying a Program Representative 1 to a Program Technician 1 without a salary step increase.

ODOT – Board of Maritime Pilots

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	199,948	255,650	272,714	193,442
Nonlimited	28,637	94,268	12,223	11,678
Total	**228,585**	**349,918**	**284,937**	**205,120**
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.

Legislatively Adopted Budget

The Legislature approved a budget of $199,385 Other Funds, $11,678 Other Funds Nonlimited, and one position (1.0 FTE). Technical adjustments decreased the budget by $2,640 total funds for eliminating inflation, freezing merit increases, and lowering Attorney General rates. Due to concerns regarding maritime pilot diversity, the Committee decreased services and supplies expenditures by $71,234 Other Funds. A budget note directs the Board of Maritime Pilots to develop an action plan with performance measures toward a goal of increasing the numbers of minorities receiving on the job training and report to the Emergency Board by April 2004.

ODOT – Central Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	111,360,364	111,956,331	116,546,370	111,029,970
Federal Funds	179,744	116,016	57,173	56,051
Total	**111,540,108**	**112,072,347**	**116,603,543**	**111,086,021**
FTE	536.04	500.17	496.59	487.75

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*** (32.50 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*** (90.5 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*** (255.5 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 management, and supply and reprographic operations.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $111 million Other Funds, $56,051 Federal Funds, and 489 positions (487.75 FTE). The 2001-03 expenditure level is maintained by reducing the budget $6.6 million and eliminating 12 positions (12.5 FTE). A position from DMV is shifted to this program for coordinating administrative rules at

$152,570 Other Funds and 1.0 FTE. Technical adjustments decreased the budget by $4.6 million total funds for eliminating inflation, freezing merit increases, lowering Attorney General and PERS employer rates, and reducing Department of Administrative Services charges. Seven vacant positions were eliminated (7.0 FTE) and $993,757 Other Funds. To retain program capacity, $390,336 of this reduction was restored in professional services. The Legislature approved agency-requested changes as follows:

- Added one limited-duration position (1.0 FTE) to continue federal grant work on the Value Pricing Project. A corresponding decrease in professional services supports the position cost of $190,400 Other Funds.
- Reconcile position and budget systems by decreasing one position (1.0 FTE) and $445,552 Other Funds.

The Legislature approved 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.
- Reclassifying three Principal Executive Manager C positions to Principal Executive Manager D and reclassifying an Accountant 2 to an Accountant 3 without a salary step increase.
- 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.
- Adjusting service and supplies line items to accommodate increases in rent totaling $300,439.

ODOT – Nonlimited

Debt Service and Loan Funds

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2001-03 Legislatively Adopted
Nonlimited	20,031,122	25,491,163	54,432,264	54,432,264
FTE	0.00	0.00	0.00	0.00

Support Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2001-03 Legislatively Adopted
Nonlimited	31,816,286	37,082,977	38,101,663	37,308,062
FTE	161.00	164.00	158.00	151.00

Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	1,622,668	2,250,631	2,377,338	2,228,366
FTE	55.92	14.00	16.00	15.00

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. An additional $28 million in debt service payments is expected as a result of the 2003

Legislature's approval of the sale of an additional $159 million highway revenue bonds to support the Oregon Transportation Investment Act.

- *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.

Legislatively Adopted Budget

The Legislature made no changes to the Governor's recommendations for Nonlimited Debt Service program, approving a budget of $54.4 million. 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 Legislature approved a budget of $37.3 million Other Funds Nonlimited and 151 positions (151.0 FTE) for the Nonlimited Support Services. Technical adjustments decreased the budget by $726,789 Other Funds Nonlimited for freezing merit increases, lowering Attorney General and PERS employer rates, and reducing Department of Administrative Services charges. Seven vacant positions (7.0 FTE) were eliminated for savings of $741,836 Other Funds Nonlimited. To retain capacity in the mechanic, maintenance, property, and administrative functions performed by these positions, $360,984 Other Funds Nonlimited was added for professional services contracts. To reconcile between the Position Information Control System (PICS) and the Oregon Budget Information System (ORBITS), the Committee reduced $12,311 Other Funds Nonlimited. A policy package for the Mill Creek Building Rent Pilot was also approved at $735,494 Other Funds. This package establishes a pilot rent program for the operations and maintenance of the building, supported by rent paid from divisions housed in the facility and parking lot revenues.

The Legislature approved a budget of $2.2 million Other Funds Nonlimited and 15 positions (15.0 FTE) for Nonlimited Operations. Technical adjustments reduced the budget by $79,481 Other Funds Nonlimited for eliminating inflation, freezing merit increases, and lowering Attorney General and PERS employer rates. One vacant traffic signal technician position (1.0 FTE) was also eliminated for savings of $108,284 Other Funds.

ODOT – Lottery Debt Service

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Lottery Funds	19,993,390	10,201,991	26,527,418	21,145,902
Other Funds	0	8,177,928	0	0
Total	**19,993,390**	**18,379,919**	**26,527,418**	**21,145,902**
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.

Legislatively Adopted Budget

The Legislature approved a budget of $21 million Lottery Funds, which is a $5,668,483 decrease from the Governor's budget due to restructuring of the bond sale for the Washington County commuter rail project. The Legislature added $751,571 Lottery Funds to support debt payments on a total of $10 million in Lottery bonds to be sold for the Short Line Rail Infrastructure and Industrial Rail Spur Infrastructure programs.

ODOT – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,958,383	2,529,970	2,529,970	2,529,970
FTE	0.00	0.00	0.00	0.00

ODOT – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,000,007	1,000,001	3,500,000	2,600,000
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.

Legislatively Adopted Budget

The Legislature approved a budget of $2.5 million Other Funds for the capital improvements program. The budget supports 28 identified facility improvement projects.

The Department's Capital Construction budget was approved in the amount of $2.6 million Other Funds, which included Lake of the Woods Capital Construction. This package continues construction of a new service garage for the Lake of the Woods maintenance station, at an estimated cost of $1 million Other Funds. In addition, the Sylvan Maintenance Capital Construction package was approved at $1.6 million Other Funds. This amount is $900,000 less than the Governor's recommended level and allows the agency to complete Phase 2 of the project.

Consumer and Business Services

Board of Accountancy – Agency Totals

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,375,182	1,624,093	1,657,951	1,565,639
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.

Legislatively Adopted Budget

The legislatively adopted budget is 3.6% below the 2001-03 legislatively approved budget. The reduced budget has no negative operational impact. It reflects the statewide freeze on salaries, reduced employer PERS contribution rates, and other savings in costs of goods and services and government service charges. Revenues are sufficient to cover planned expenditures while still providing an ending balance equal to slightly more than six months of operating expenses.

Board of Chiropractic Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	819,623	892,354	967,493	916,244
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 by the Board through the administrative rule process and ratified by the 2003 Legislative Assembly.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $916,244 Other Funds, a 2% reduction from the Governor's budget, and 4.50 FTE. The approved budget eliminates merit increases and inflation for certain services and supplies line items, reduces the Department of Administrative Services assessment, the Attorney General rate, and reduces the expenditure limitation to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The Legislature approved the establishment of a mentoring program to address complaints and cases involving inadequate clinical decision-making and record-keeping.

Board of Clinical Social Workers – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	418,268	499,055	511,068	488,074
FTE	2.54	2.54	2.50	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. The Board anticipates raising the fees administratively in 2003-05.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $488,074 Other Funds, a 4.5% reduction from the Governor's budget, and 2.50 FTE. The approved budget eliminates merit increases and inflation for certain services and supplies line items, and reflects reductions to the Department of Administrative Services assessments, Attorney General rate, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The Legislature approved one-time expenditures for lateral filing cabinets, and one-time expenditures related to an office move anticipated to take place in 2004. The funds will be unscheduled by Department of Administrative Services pending an analysis of final rent costs at the new location compared to the current facility.

Construction Contractors Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	10,753,575	11,623,662	12,070,329	11,403,490
Positions (FTE)	63.98	63.75	60.75	60.65

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). Budgeted at $90,000 in 2001-03, this source of funding is eliminated in 2003-05. 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, has 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.

Among other administrative means in 2001-03, the Board used ending balance revenues to maintain service levels. The 2001-03 actual ending balance was approximately 15% less than budgeted for that biennium. Revenues from licensing and renewal fees were about 16% lower than projected. However, this was an improvement over the 25% reduction that was originally anticipated. And, there was an increase of approximately $480,000 to the projected ending balance.

Although the revenue picture is improving, the lower levels still can be 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. Current economic forecasts indicate that the year 2003 will see a 1.9% decline in construction, rather than the flat prognosis reported in late 2002. Growth in 2004 is expected to be positive at 2%, which is lower than reported a year ago.

Because the agency's primary revenue source is Other Funds, the Board is not directly affected by the state's revenue shortfall. However, legislative budget policy implemented in the 2003 session affected the Board's limitation for expenditures.

Legislatively Adopted Budget

The 2003-05 budget of $11,403,490 reflects a 1.9% decrease from the 2001-03 legislatively approved budget and a 5.5% decrease from the Governor's budget. The change is principally from applying reductions to standard inflation factors, price list adjustments, and a freeze on merit and cost of living increases in employee compensation. In order to maintain program service levels affected by the Other Funds revenue shortfall discussed above, and restore an ending balance, the budget relies on a change in the license fee structure to a flat biennial fee for all categories of licenses. The adopted budget supports the legislative recommendation that the flat fee not exceed $295 per biennium. Administrative rules adopted by the Board implement the increase as of January 1, 2004. It is now anticipated that this fee level will generate approximately $11.8 million.

Revenue generated from the increase will fund restoration of 29 positions (28.75 FTE). The position restoration does not include the Deputy Administrator. Position reclassifications in the enforcement section, which were approved by the Department of Administrative Services, Human Resource Services Division in August of 2002, are also funded. Five positions are reclassified from Program Representative 1 to Compliance Specialist 2, and one Investigator 2 position is changed to Program Technician 1. Two vacant positions are funded at step 2, down from step 8. An Investigator position (0.10 FTE), vacant and unfunded for three biennia, is eliminated.

The budget includes a number of standard adjustments, including lower Department of Administrative Services assessments, a reduction in the hourly Attorney General rate, elimination of inflation adjustments for most services and supplies expenditures, an employee compensation freeze, and a reduction in the expenditure limitation to reflect lower Public Employee Retirement System rates. Rent for the Board's office at the Oregon Department of Veterans' Affairs building is fully funded, and the budget also provides $72,000 for the replacement of older computer work stations.

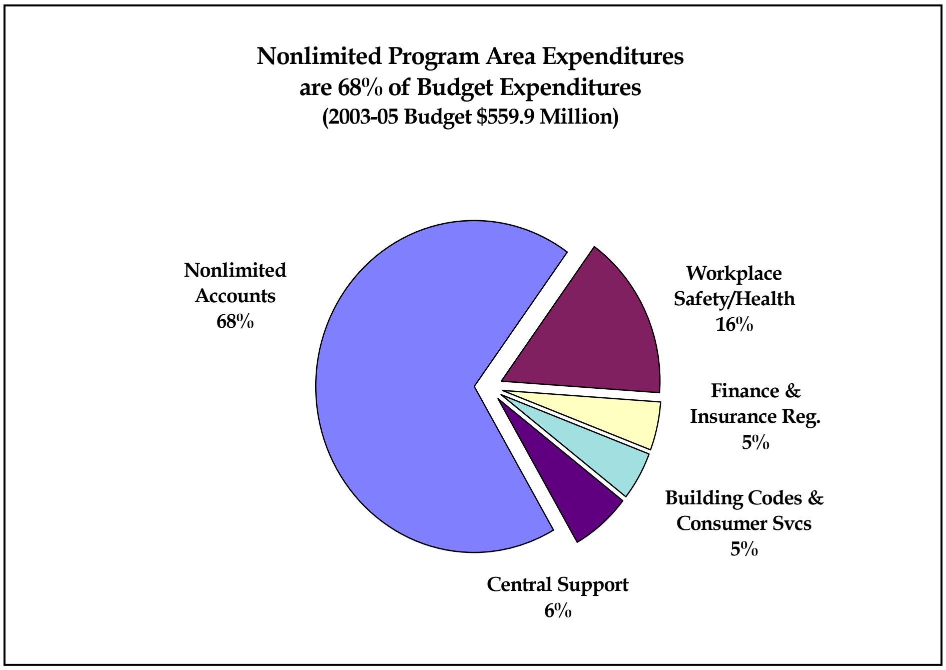
Department of Consumer and Business Services (DCBS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	159,427,817	172,737,807	182,922,758	173,324,865
Nonlimited	262,652,088	333,050,730	456,191,147	386,534,154
Total	**422,079,905**	**505,788,537**	**639,113,905**	**559,859,019**
FTE	1131.09	1102.51	1077.17	1076.95

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.



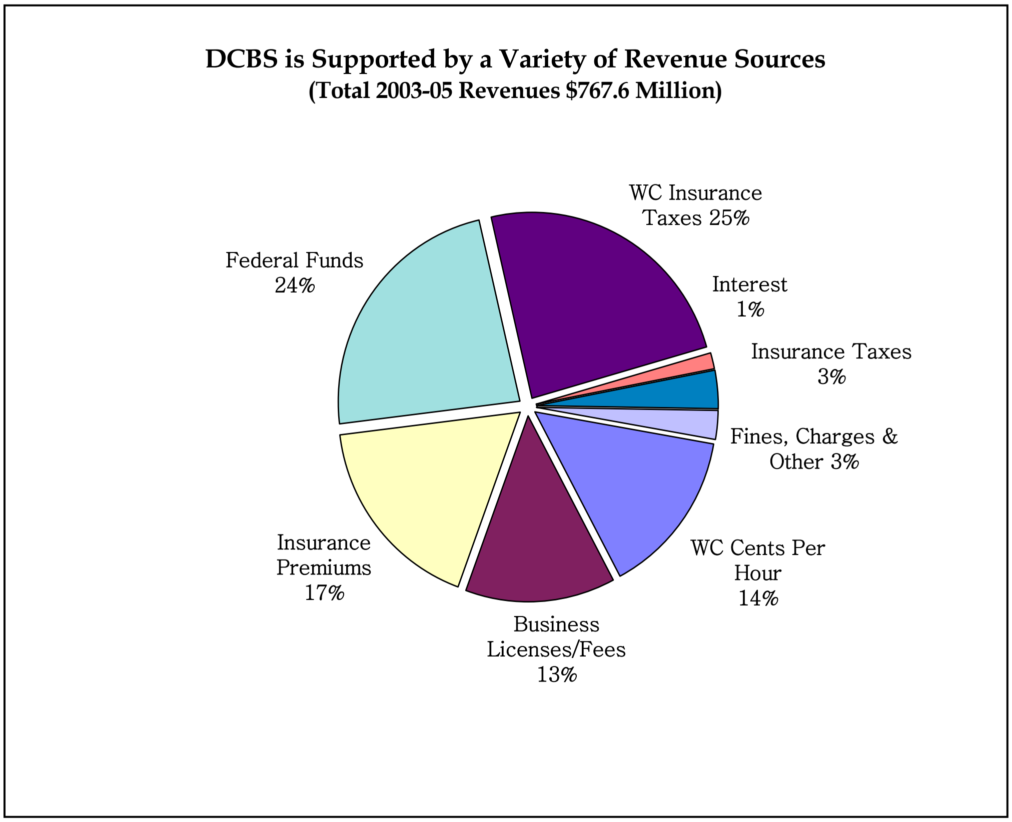
Nonlimited Accounts include the Workers' Benefit Fund, nonlimited reserves and payments for workers' compensation, and the Oregon Medical Insurance Pool third-party administrator and claim payments.

Revenue Sources and Relationships

Over 500 dedicated fees, assessments, and charges support the operation of the DCBS. In addition, the Department is responsible for the management of a number of dedicated accounts within four separate operating funds: the Consumer and Business Services Fund; the Workers' Benefit Fund; the Funeral and Cemetery Consumer Protection Trust 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, 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 had 12 consecutive years of decline in the premiums paid by employers, and two years of no increase, equaling a 57.5% cut in these costs since 1990 and resulting in cumulative savings of $8.8 billion to Oregon employers. Due to the reduced revenue base and the draw 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 was unchanged in 2003. That rate had been anticipated to decline to 6.7%. The 2003 Legislature transferred $15.7 million from the primary operating fund for DCBS, which includes dedicated accounts for the Workers' Compensation Premium Assessment Account. With this transfer, the rate is expected to be set at 7% for 2004.
- 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 Legislature approved SB 468 that transferred $631,570 Other Funds and 2.78 FTE from the Department of Transportation to DCBS Building Codes Division effective May 1, 2005 to handle duties relating to titling and registration of manufactured structures.

Legislatively Adopted Budget

The Legislature approved a budget of $559.9 million total funds, and 1,076.95 full-time equivalent positions (FTE) for DCBS. This represents a 12.4% decrease from the Governor's budget and a reduction of 3.00 full-time equivalent positions. Most of this reduction is a result of an adjustment of $69,656,993 in Non-limited Other Funds in the OMIP program, based on revised Family Health Insurance Assistance Program (FHIAP) estimates.

DCBS – Central Support

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	30,328,736	31,848,032	35,105,890	32,858,392
Nonlimited	790,400	1,550,000	819,522	819,522
Total	**31,119,136**	**33,398,032**	**35,925,412**	**33,677,914**
FTE	190.16	186.88	191.17	191.13

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 $32.8 million in Other Funds from revenue transfers within the Department's dedicated funds. Federal Funds of $230,000 from the U.S. Bureau of Labor Statistics and matching funds from Workers' Compensation Premium Assessments fund an annual survey of work-related and fatal injuries. 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.

Legislatively Adopted Budget

The Legislature approved a budget of $33.7 million total funds and 191.13 FTE for this program unit. Technical adjustments to the Governor's budget include the elimination of a vacant Electronic Publishing Design Specialist 2 position (1.0 FTE), the elimination of employee merit increases scheduled to occur after July 1, 2003, a reduction in the Department of Administrative Services' assessments and increase in telecommunications costs, a reduction in the Attorney General rate, which reduced the charge to agencies to $98 from $109 per hour, and elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

The budget has an increase of $140,450 and 0.96 FTE for administrative expenses from SB 468, which transferred duties relating to titling and registration of manufactured structures from the Department of Transportation to DCBS Building Codes Division effective May 1, 2005.

DCBS – Workers' Compensation Board

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	15,263,322	16,741,242	17,878,637	16,971,327
FTE	96.71	97.50	95.50	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.

Legislatively Adopted Budget

The Legislature approved a budget of $17.0 million Other Funds and 95.50 FTE for the Workers' Compensation Board. Technical adjustments to the Governor's budget include an elimination of employee merit increases scheduled to occur after July 1, 2003, a reduction to the Department of Administrative Services' assessments and telecommunications costs, a reduction in Attorney General rates, and the elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Workers' Compensation Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	29,211,900	31,249,601	33,588,147	31,740,855
Nonlimited	2,992,876	3,250,221	3,334,446	3,334,446
Total	**32,204,776**	**34,499,822**	**36,922,593**	**35,075,301**
FTE	257.68	239.46	238.00	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 5.0 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%.

Legislatively Adopted Budget

The Legislature approved a budget of $35.1 million total funds and 238.0 FTE for the Division. Technical adjustment to the Governor's budget include the elimination of employee merit increases scheduled to occur after July 1, 2003, a reduction in the Department of Administrative Services' assessments and increase in telecommunications costs, a reduction in Attorney General rates, and the elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Oregon Occupational Safety and Health Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	36,424,097	38,164,707	40,729,215	38,433,059
FTE	254.32	235.08	234.83	232.83

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, $10.2 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.

Legislatively Adopted Budget

The Legislature approved a budget of $38.4 million Other Funds and 232.83 FTE for OR-OSHA. Technical adjustments to the Governor's budget include the elimination of 2.0 full-time equivalent vacant positions, elimination of employee merit increases scheduled to occur after July 1, 2003, a reduction in the Department of Administrative Services' assessments and increase in telecommunications costs, a reduction in Attorney General rates, and an elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Nonlimited Accounts

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	258,622,979	328,050,509	451,837,179	382,180,186
FTE	0.00	0.00	0.00	0.00

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;
- $171,154,791 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 includes:

- 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.

Legislatively Adopted Budget

The Legislature approved a technical adjustment to reduce the Oregon Medical Insurance Pool – Claims/ Third-Party Administration – Nonlimited program unit's budget by $69,656,993 Nonlimited Other Funds as a result of a revised projection of the number of enrollees for the Oregon Medical Insurance Pool program.

DCBS – Insurance

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	12,955,261	15,424,736	16,602,432	15,610,099
FTE	93.00	95.21	93.00	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 2003-

05, 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, $12.9 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.

Legislatively Adopted Budget

The Legislature approved a budget of $15.6 million Other Funds and 93.0 FTE for the Division. Technical adjustments include elimination of employee merit increases scheduled to occur after July 1, 2003, an increase to reflect reductions in the Department of Administrative Services' assessments and an increase in telecommunications costs, a reduction to reflect an Attorney General rate change, and elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Finance and Corporate Securities

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	8,055,462	10,017,620	10,962,252	10,386,779
FTE	61.34	63.50	63.75	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 $16.5 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 $2.6 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.

Legislatively Adopted Budget

The Legislature approved a budget of $10.4 million Other Funds and 63.75 FTE for the Division. Technical adjustments include the elimination for employee merit increases scheduled to occur after July 1, 2003, a reduction to reflect the Department of Administrative Services' assessments and increase in telecommunications costs, a reduction to reflect an Attorney General rate change, and an elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Oregon Medical Insurance Pool Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,286,982	1,120,595	1,231,223	1,177,975
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 $171.2 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.

Legislatively Adopted Budget

The Legislature approved a budget of $1.2 million Other Funds and 7.0 FTE. Technical adjustments include reductions in the Department of Administrative Services' assessments, reductions to reflect an Attorney General rate change, and the elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

DCBS – Building Codes

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	24,648,525	27,510,589	26,088,608	25,446,417
Nonlimited	184,708	200,000	200,000	200,000
Total	**24,833,233**	**27,710,589**	**26,288,608**	**25,646,417**
FTE	164.88	172.88	148.92	150.74

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;
- $475,606 from fines; and
- $275,600 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 Governor's budget included a reduction of $4.8 million and 31.08 FTE to reflect this revenue forecast. The 2003 Legislature adopted a fee bill and a policy option package that restored $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 9% of the population, collects 2% 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.

Legislatively Adopted Budget

The Legislature approved a budget of $25.6 million total funds and 150.74 FTE for the Division. Technical adjustments include elimination of employee merit increases scheduled to occur after July 1, 2003, a reduction in the Department of Administrative Services' assessments and increase in telecommunications costs, a reduction in Attorney General rates, and elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items. Other reductions include rate reductions in PERS and Secretary of State charges.

As noted above, the 2003 Legislature approved a policy package to restore $1,587,024 Other Funds and 9.58 FTE based on passage of fee increases. The 2003 Legislature also approved SB 468 that transferred $631,570 Other Funds expenditure limitation and 2.78 FTE from the Department of Transportation to the Division effective May 1, 2005 to handle duties relating to titling and registration of manufactured structures. Of this amount, $491,120 Other Funds expenditure limitation and 1.82 FTE is budgeted in the Building Codes Division and the balance is budgeted in Central Support Services for administrative support to the program.

DCBS – Office of Minority, Women and Emerging Small Business

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	543,517	660,685	736,354	699,932
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.

Legislatively Adopted Budget

The Legislature approved a budget of $699,932 Other Funds and 5.0 FTE. Technical adjustments include reductions in the Department of Administrative Services' assessments and telecommunications costs, a reduction to reflect an Attorney General rate change, which reduced the charge to agencies to $98 from $109 per hour, and the elimination of the inflation factor originally included in the Governor's budget for most services and supplies line items.

DCBS – Appraisers Certification and Licensure Board

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	287,165	390,676	444,592	390,793
FTE	2.00	2.00	2.00	2.00

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 was ratified by the 2003 Legislature.

Budget Environment

The Board expected 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.

Legislatively Adopted Budget

The Legislature approved a budget of $390,793 Other Funds, a 2% reduction from the Governor's budget, and 2.0 FTE. The budget includes adjustments for the elimination of merit increases and inflation for certain services and supplies line items, and for reductions in the Department of Administrative Services assessments, Attorney General rates, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

Health Licensing Office – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	3,351,018	4,224,801	4,676,749	4,398,740
FTE	27.29	27.29	28.00	26.92

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. Fee increases made in administrative rule during the 2001-03 biennium were ratified by the 2003 Legislative Assembly.

The 2003 Legislature approved legislation that allows 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 for 2003-05.

The 2003 Legislature also approved the establishment of a $25 fee for each field of practice of cosmetology. Previously, a $50 fee covered three separate fields. 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 also conducted an estimated 884 investigations in 2001-03, with over 2,000 disciplinary sanctions imposed. This activity has continued to increase from biennium to biennium.

Legislatively Adopted Budget

The Legislature approved a total budget of $4.4 million Other Funds, a 6% decrease from the Governor's budget, and 26.92 FTE. Technical adjustments in support of statewide policy decisions and recommendations include employee compensation freeze, elimination of inflation adjustments for non-fixed costs, reduction of Attorney General rates, reduction in assessments by the Department of Administrative Services, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The following policy packages were approved:

- An additional $82,203 Other Funds expenditure limitation was granted for the agency to remain a Department of Administrative Services client for fiscal services.
- An Information Technology package was approved with an understanding that the Department of Administrative Services will unschedule the Other Funds expenditure limitation pending submission of a detailed report to the Joint Legislative Committee on Information Management and Technology.

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.

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.

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,387,934	1,654,903	1,770,506	1,674,449
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.

Legislatively Adopted Budget

The adopted budget of $1,674,449 Other Funds is a 5.5% reduction from the Governor's budget, and 7.0 FTE. The budget included adjustments to eliminate merit increases and inflation for certain services and supplies line items, a reduction to the Department of Administrative Services assessment, a reduction of the Attorney General rate, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The budget included increased limitation for facilities rent, a one-time expenditure limitation of $7,925 to replace a network server, mail server software, and upgrade to existing workstations, and additional investigator and consultant services in the amount of $55,691 Other Funds.

Board of Examiners of Licensed Dieticians – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	53,979	60,888	63,511	59,029
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.

Legislatively Adopted Budget

The Legislature approved a budget of $59,029, a 7.1% reduction from the Governor's budget. Adjustments were made to eliminate merit increases and inflation for certain services and supplies line items, reduce the Department of Administrative Services assessment and telecommunications charges, reduce the Attorney General rate, and to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

Mortuary and Cemetery Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	863,332	1,033,486	1,136,897	980,127
FTE	6.00	6.00	6.00	5.00

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 were estimated to be $1,002,270, and $1,122,658 is projected for the 2003-05 biennium. To meet the continuing needs of existing programs and maintain an adequate ending balance, the Board requested an increase in the death certificate filing fee from $7 to $14; however, the bill was not approved. The Board was directed to evaluate its licensing fees and may return to a meeting of the Emergency Board or to the next Legislative Assembly to report on the results. HB 2809 (2001), 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 ratified by the 2003 Legislative Assembly. The fee increase will leave the Board with an estimated $283,459, which is a 6-month operating reserve.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $980,127 Other Funds, a 13.8% reduction from the Governor's budget, and 5.0 FTE. The budget included adjustments for the elimination of merit increases and inflation for certain services and supplies line items, a reduction of the Department of Administrative Services assessment, a reduction in the Attorney General rates, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments. Additionally, one full-time Investigator 2 position was eliminated due to a shortfall in fee revenues.

Board of Naturopathic Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	273,905	320,366	341,309	323,132
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 and remained at the decreased level in 2001-03. The Legislature approved a fee increase for 2003-05 which will leave the Board with an acceptable level of ending cash balance.

Budget Environment

The Board expected to renew 480 licenses in 2001-03 and has projected 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.

Legislatively Adopted Budget

The Legislature approved a budget of $323,132 Other Funds, a 5.3% decrease from the Governor's budget, and 1.75 FTE. The approved budget eliminates merit increases, inflation for certain services and supplies line items, and reduces expenditure limitation to reflect lower Department of Administrative Services assessments, Attorney General rate, and Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The budget includes a reduction of $7,500 Other Funds from services and supplies to reflect test proctoring that the Board will not undertake in 2003-05, a reduction of $1,500 Other Funds for professional services to reflect expenditure trends from 2001-03, an Other Funds expenditure limitation increase for two additional Board Members, and additional Other Funds expenditure limitation for one additional temporary employee.

Board of Examiners of Nursing Home Administrators – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	177,893	184,380	196,837	189,693
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 ratified by the 2003 Legislative Assembly.

Revenue is estimated at $229,450 for 2003-05. The 2003-05 ending cash balance is projected to be $118,169 which represents an 11-month operating reserve.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $189,693 Other Funds, a 3.7% reduction from the Governor's budget, and 1.0 FTE. The budget was adjusted to eliminate merit increases and inflation for certain Services and Supplies line items, a reduction to the Department of Administrative Services assessment and telecommunications charges, a reduction to the Attorney General rate, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

Occupational Therapy Licensing Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	191,640	241,453	260,434	249,107
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 Legislature approved a fee increase for the 2003-05 biennium.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $249,107 Other Funds, a 4.4% decrease in the Governor's budget, and 1.25 FTE. Adjustments to the budget include reductions to reflect the elimination of inflation, reduced Attorney General rates, reduced telecommunications charges and lower assessments from the Department of Administrative Services, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments. The Legislature also removed agency fee limits from statute to enable the agency to institute fees by administrative rule.

Board of Pharmacy – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	2,156,968	2,735,701	3,006,091	2,780,917
FTE	13.50	15.00	15.50	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. The Board 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 (2001) increased the statutory Board fee maximums, established in ORS 689.135. 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 ratified by the 2003 Legislative Assembly. The adopted fees will leave the Board with an 11-month operating reserve.

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.

Legislatively Adopted Budget

The Legislature adopted a budget of $2,780,917 Other Funds, a 7.5% decrease to the Governor's budget, and 15.50 FTE. The budget included adjustments for the elimination of merit increases and inflation for certain services and supplies line items, a reduction to the Department of Administrative Services assessment, a reduction to the Attorney General rate, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The Legislature approved an increase to the Board's Other Funds expenditure limitation by $150,000 to complete phase 1 of a new computer system, and requested the Board return to the Emergency Board to request any additional funds needed for implementation of phases 2 and 3.

The budget also included a reclassification of four positions, a policy package for Computer Maintenance, Training, and Computer Network Support, in the amounts of $34,000 and $62,473 Other Funds, respectively.

Board of Radiologic Technology – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	361,515	452,364	486,589	396,143
FTE	2.50	2.79	3.00	2.50

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. The 2003 Legislature ratified a newly created fee and fees that were raised during the 2001-03 interim. The Board estimates $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.

Legislatively Adopted Budget

The Legislature approved a budget of $396,143 Other Funds, an 18.6% reduction from the Governor's budget. Adjustments to the budget eliminated inflation for certain services and supplies line items and reflected reductions in the Department of Administrative Services assessment, Attorney General rate, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments. The Legislature approved a Public Safety Maintenance policy package in the amount of $200 for Law Enforcement Data System (LEDS) checks.

Board of Examiners for Speech-Language Pathology and Audiology – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	140,216	158,119	163,120	153,663
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. 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.

Legislatively Adopted Budget

The Legislature approved a budget of $153,663 Other Funds, a 5.8% reduction from the Governor's budget, and 0.85 FTE. Adjustments to the budget include the elimination of inflation for certain services and supplies line items, a reduction of Attorney General rates, a reduction for lower assessments from the Department of Administrative Services, a reduction in the expenditure limitation to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments, and a reduction based on 2001-03 expenditure trends. The Legislature also ratified fees established at legislative direction regarding a new class of licensure, Speech Assistants. The agency established the fee at a low level and will gather data on associated workload. Should the workload resultant from this new class of licensure be higher than anticipated, the Board may return with a request for a fee increase.

Veterinary Medical Examining Board – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	443,527	429,477	492,831	477,212
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 Legislature approved a temporary reduction in Veterinary Permit Licenses and Renewal License fees. The reduction of revenue for the 2003-05 biennium will leave the Board with an ending balance of approximately 12.5 months of operational costs.

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.

Legislatively Adopted Budget

The Legislature approved a budget of $477,212 Other Funds, a 3% reduction from the Governor's budget. The budget was adjusted to reflect the elimination of inflation for certain services and supplies line items, merit adjustments, reduced Attorney General rates, lower assessments from the Department of Administrative Services, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission and Secretary, of State Audits Division assessments.

The budget included an increase in limitation for Attorney General expenses, and the addition of a Veterinary Technician to the Board. In addition, $21,982 Other Funds expenditure limitation increase was approved for 2001-03 for Attorney General expenses due to increased enforcement and litigation late in the biennium.

Board of Investigators – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	327,381	394,217	434,894	429,045
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 license application, examination, 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 2003-05 biennium. Even so, the number of licensees is expected to increase by about 20% from approximately 500 to 600.

Budget Environment

The Board of Investigators has identified five issues driving 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 Legislature approved increasing the license fee for Provisional Investigators to equal that of a full Investigator's license in 2003-05. The increase recognizes that the effort involved in issuing a provisional license is comparable to that for a full Investigator's license. Without the increase, the Board would move into a deficit position during calendar year 2004.

Legislatively Adopted Budget

The Legislature adopted a budget of $429,045, an 8.8% increase over the legislatively approved budget for the prior biennium. The Governor's budget was reduced to eliminate salary merit increases and inflation and to adjust the assessments for PERS, Department of Administrative Services, and Attorney General, but added limitation to reflect hiring two experienced employees above the budgeted salary level, for a net decrease of $5,849. The 2003-05 legislatively approved budget reflects the increasing responsibilities of this relatively new regulatory board.

Bureau of Labor and Industries (BOLI) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	12,458,293	11,479,864	11,672,962	10,935,047
Other Funds	4,175,091	4,677,997	5,093,723	5,123,744
Federal Funds	855,612	1,253,344	1,400,120	1,317,039
Nonlimited	1,644,348	2,415,000	2,292,525	2,215,000
Total	**19,133,344**	**19,826,205**	**20,459,330**	**19,590,830**
FTE	129.00	113.75	102.87	106.24

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%) 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 (DCBS) and several Oregon cities will produce over $816,000; and miscellaneous fees and receipts will provide over $381,000. BOLI will receive an estimated $1.3 million in Federal Funds from the Equal Employment Opportunity Commission and the Veterans' Administration. This supports approximately 63% of actual costs for civil rights where federal and state jurisdictions overlap.

Budget Environment

A new Labor Commissioner was elected in May 2002. The budget recommendations were developed under the prior Labor Commissioner and were 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 2002 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 2003 Legislature essentially restored this reduction, resulting in an Apprenticeship and Training program funded at $2.5 million (2.65% below the Governor's budget).

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 employees who have lost jobs due to a downturn in the labor market, and who have unresolved wage matters with former employers. Apprenticeship registration generally reflects trends in the labor market. These registrations have declined from a high of over 8,000 in fiscal year 1997 to the current 5,744, which reflects trends seen in prior recessions.

BOLI – Commissioner's Office and Program Support Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,890,671	3,437,818	3,695,269	3,266,259
Other Funds	1,090,341	1,853,771	2,039,797	2,121,266
Federal Funds	176,614	212,502	176,445	196,338
Total	**5,157,626**	**5,504,091**	**5,911,511**	**5,583,863**
FTE	30.25	29.50	28.00	28.50

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* (6.42 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 legislatively adopted staffing level is 106.24 FTE, a decline of 33.2%. 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 unit will answer 25,461 inquiries and there will be over 3,000 website inquiries. Annual 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.

Legislatively Adopted Budget

The Legislature approved a budget of $5,583,863 total funds, a 5.9% decrease from the Governor's budget, and 28.50 FTE. Technical adjustments include the elimination of employee merit increases scheduled to occur after July 1, 2003, elimination of the inflation factor originally included in the Governor's budget for most services and supplies line-items, a decrease of General Fund to reflect an Attorney General rate change, a decrease of $10,202 total funds to reflect reductions in the Department of Administrative Services assessments and liability insurance costs; and a decrease of $163,045 total funds to reflect PERS and Secretary of State Audits Division assessments.

The following policy packages were approved:

- Elimination of the cost-of-living adjustments for positions with a salary range 38 or higher.
- A partial fund shift for 17 positions from General Fund to Other Funds to reflect actual distribution of costs, restoration of 0.50 full-time equivalent Administrative Specialist 2 position, and reduction of telephone costs.

BOLI – Civil Rights

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,715,448	2,373,610	2,315,710	2,389,528
Other Funds	662,420	835,263	951,282	885,253
Federal Funds	614,874	974,508	1,142,462	1,042,455
Total	**3,992,742**	**4,183,381**	**4,409,454**	**4,317,236**
FTE	35.50	31.00	28.12	30.00

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.

Revenue Sources and Relationships

The Civil Rights Division expects to receive Other Funds of over $439,400 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 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 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% to 20% 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.

Legislatively Adopted Budget

The Legislature approved a budget of $4,317,236 total funds and 30.0 FTE, a reduction of 2.14% from the Governor's budget. Technical adjustments to the Governor's budget include elimination of employee merit increases scheduled to occur after July 1, 2003, elimination of the inflation factor for services and supplies line-items, a reduction to reflect an Attorney General rate change, which reduced the charge to agencies to $98 from

$109 per hour, and reductions in the Department of Administrative Services assessments and liability insurance costs. The budget was reduced $138,326 total funds from reductions in the PERS rate.

BOLI – Wage and Hour

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,343,947	3,177,659	3,148,036	2,829,294
Other Funds	2,422,330	1,988,963	2,102,644	2,117,225
Nonlimited	1,644,348	2,415,000	2,292,525	2,215,000
Total	**7,410,625**	**7,581,622**	**7,543,205**	**7,161,519**
FTE	39.00	33.50	29.75	30.62

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 2003-05 from the .03% 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% over the previous biennium. In the 1999-2001 biennium, the Division collected over $1.5 million in unpaid prevailing wages, 20% 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% over the prior biennium, and the Wage Security Fund paid $1.5 million in claims in calendar year 2000-2001**.** This was a 66% 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.

Legislatively Adopted Budget

The Legislature approved a budget of $7,161,519 total funds and 30.62 FTE. Technical adjustments to the Governor's budget include elimination of employee merit increases scheduled to occur after July 1, 2003, elimination of the inflation factor originally included in the Governor's budget for most services and supplies line-items, a reduction to reflect an Attorney General rate change, which reduced the charge to agencies to $98 from $109 per hour, and a reduction to reflect the Department of Administrative Services assessments and liability insurance costs. The budget was reduced $125,493 total funds from reductions in the PERS rate.

BOLI – Apprenticeship and Training

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,508,227	2,490,777	2,513,947	2,449,966
Federal Funds	64,124	66,334	81,213	78,246
Total	**2,572,351**	**2,557,111**	**2,595,160**	**2,528,212**
FTE	24.25	19.75	17.00	17.12

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 works in partnership with educators, employers, and students. This includes cooperative efforts with school-to-work programs to ensure that adult apprenticeship standards are connected to core competencies identified at the high school level.

Revenue Sources and Relationships

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.

Legislatively Adopted Budget

The Legislature approved a budget of $2,528,212 total funds and 17.12 FTE, a reduction of 2.65% from the Governor's budget. Technical adjustments to the Governor's budget include elimination of projected expenditures for employee merit increases scheduled to occur after July 1, 2003, elimination of 0.75 FTE vacant position, elimination of the inflation factor originally included in the Governor's budget for services and supplies, a reduction in Attorney General rates, and a reduction in the Department of Administrative Services assessments and liability insurance costs. The budget was reduced $80,904 total funds from reductions in the PERS rate.

Board of Medical Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,217,053	6,287,318	6,890,328	6,505,650
FTE	30.96	31.00	32.60	32.60

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 includes administration, initial and renewal licensing, public information, and complaint investigation. The Health Professionals 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 Health Professionals Program represents approximately 11% of the Board's total budget, with the remainder used for Board Operations.

Revenue Sources and Relationships

The Board receives no General Fund for its operations and instead relies on an estimated $7 million of revenue from fees for licensure, examination, certification, and registration of the various health professionals under its jurisdiction. Revenue from the sale of lists, directories, and other miscellaneous sources makes up about 4% of the Board's income. The Board is required by ORS 677.290 to transfer $10 for each in-state registered physician to the Oregon Health and Science University (OHSU) to maintain a medical library. The Board expects to transfer about $178,620 to OHSU during the 2003-05 biennium who uses it 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. 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.

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 in-depth review of applicant history is growing too, but more rapidly than the number of new applications filed. Two of the Board's performance measures are especially noteworthy: The Board tracks the average number of days to process an initial application for licensure or renewal. In 2000, the Board averaged 45 days to complete the new licensure process. In 2001, it was taking 53 days and that trend is continuing. However, after making several technology enhancements, the Board has reduced the average number of days to process and mail a license renewal from 18 days in 1999 to 10 days in 2001.

The Board 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 2001 Legislature 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 the 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 ending balance and renewal cycle was the subject of an interim study which found the Board's practice of renewing all licenses in January of each year was a cost-effective method for the Board and its stakeholders but that it drives the need for the Board to retain a higher ending balance. The Board demonstrated that it manages its resources on a ten-year cycle and adjusts license fees infrequently with the most recent increase occurring in 1999. The Board's currently has a 12-month ending balance which will decline in coming biennia with the Board projecting a deficit cash flow by 2009. Interest that accrues on the Board's balance is deposited into the General Fund and is not available for the Board's use.

Legislatively Adopted Budget

The 2003 Legislature adopted an Other Funds budget of $6.5 million, 3.5% higher than the legislatively approved budget for 2001-03. The Board's budget has increased by more than one-third over the last three biennia while the number of new applications has more than doubled. During this time, the Board has added no employees. The Board has absorbed as much additional work as it can within existing resources and the adopted budget includes a combination of enhanced technology, one new full-time position, and increasing three part-time positions to full-time to address workload demands for a total increase of 1.6 FTE. Technical adjustments in assessments for the Department of Administrative Services and Attorney General, inflation for other services, and a salary freeze reduced the budget by $207,210. The budget was also reduced by $176,727 for adjustment of the PERS assessment.

Board of Nursing – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,888,784	7,157,299	8,081,485	7,621,080
FTE	33.83	34.50	41.75	39.25

Program Description

The Board of Nursing regulates nursing practice and nursing education to protect public health, safety, and well being. 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 nursing 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 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 receives no General Fund for its operation. The Board regulates certified nursing assistants (CNAs) 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 funds the balance of its operations from license and examination fee revenue plus a small amount of revenue from the sale of lists and directories and from fines and forfeitures.

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 Legislature authorized fee increases this biennium to allow the Board to adequately staff essential functions and retain an adequate ending balance equal to about four months' expenses. The biennial fee for registered nurses and licensed practical nurses will increase by $20. The fee for certification of nursing assistants by examination will increase by $10 plus a $5 increase for renewal of nursing assistant certificates or for certification by endorsement.

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 registered nurses graduating from Oregon schools has almost doubled in the last four years. The Board is experiencing sustained growth in licensees of about six percent per year. The Board tracks how quickly it processes applications with a long-range goal of processing 97% within five working days. In 2002, 52% of new license applications met that standard.

The nursing practice, investigations and compliance functions 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 now compared to 246 in the last biennium, a 25% increase.

The licensing and certification function is divided into four elements. The Board receives about 38,000 applications per year averaging 2,000 nursing applications and 1,000 CNA certificate requests 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.

Legislatively Adopted Budget

The Legislature approved an Other Funds budget of $7.6 million, a 6.5% increase over the last legislatively approved budget. The adopted budget added packages to complete the customer service and production center and expand information technology in preparation for migrating to e-government for license renewals and verification of nurses' credentials. Technical adjustments were made in assessments for the Department of Administrative Services, Attorney General, and PERS; for deletion of inflation for other services; and to recognize a salary freeze for a net reduction of $460,405 from the requested budget.

The budget includes 40 positions equal to 39.25 full-time equivalents (FTE), an increase of 4.75 FTE. The adopted budget did not include the Board's request to make 3 temporary positions (2.50 FTE) in the customer service and production center permanent, but gave the agency expenditure limitation to continue using temporary employees. The request to make an existing limited duration position in the Center permanent was approved as well as increasing a part-time position to full-time (1.25 FTE). The adopted budget also adds three permanent positions (2.50 FTE) to the investigations section including a full-time nursing consultant, full-time investigator, and part-time office specialist to support the two professional positions. One other permanent full-time position was added to allow the agency to hire a full-time database administrator.

Board of Psychologist Examiners – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	557,456	605,383	663,918	622,492
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.

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.

Proposed legislation (SB 214) that would have granted semi-independence to the Board by removing the Board from the state budget system was not approved by the Legislature. SB 155, which modifies and clarifies the requirements for licensure by reciprocity, was passed by the 2003 Legislature.

Legislatively Adopted Budget

The Legislature approved a budget of $622,492 Other Funds and 2.5 full-time equivalent positions. This funding level is over 6% lower than the Governor's budget. The budget was reduced for technical adjustments for the elimination of merit increases, the elimination of inflation for non-fixed costs, Attorney General rates, assessments by the Department of Administrative Services, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

Public Utility Commission (PUC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	39,337,481	32,467,867	35,040,668	33,222,227
Federal Funds	293,978	302,965	337,108	334,915
Nonlimited	0	243,100,000	121,920,072	121,920,072
Total	**39,631,459**	**275,870,832**	**157,297,848**	**155,477,214**
FTE	121.04	122.00	125.50	123.50

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	23,311,785	8,309,597	9,176,109	8,748,905
Federal Funds	293,978	302,965	337,108	334,915
Nonlimited	0	243,100,000	121,920,072	121,920,072
Total	**23,605,763**	**251,712,562**	**131,433,289**	**131,003,892**
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 (1999) 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 (1999) 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 (1999) 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.

Legislatively Adopted Budget

The Legislature approved a budget of $131 million total funds, a 0.4% reduction in the Governor's budget, and 42.0 FTE. Technical adjustments to the Governor's budget include reductions for employee merit increases scheduled to occur after July 1, 2003, a reduction to accommodate an Attorney General rate change, a decrease to eliminate the inflation factor originally included in the Governor's budget for most services and supplies line-items, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

PUC – Residential Service Protection Fund

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	8,121,842	9,622,858	9,974,217	9,608,989
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.

Legislatively Adopted Budget

The Legislature approved a budget of $9.6 million Other Funds, a 3.7% reduction in the Governor's budget, and 5.0 FTE. Technical adjustments to the Governor's budget in support of statewide policy decisions include a decrease to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003, a decrease to accommodate an Attorney General rate change, a decrease to eliminate the inflation factor originally included in the Governor's budget for most services and supplies line-items, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments. In addition, the Legislature approved the reclassification of one Program Technician 2 position (1.0 FTE) to a Principal Executive Manager C position (1.0 FTE).

PUC – Policy and Administration Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	7,903,854	14,535,412	15,890,342	14,864,333
FTE	47.54	75.00	78.50	76.50

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.

Legislatively Adopted Budget

The Legislature approved a total funds budget of $14. 9 million, a 6.5% decrease in the Governor's budget, and 76.50 FTE. Adjustments to the Governor's budget in support of statewide policy decisions include a decrease to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003, a decrease to accommodate an Attorney General rate change, a decrease to eliminate the inflation factor originally included in the Governor's budget for most services and supplies line-items, a decrease to reflect reductions in the Department of Administrative Services' assessments, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The Legislature approved the reclassifications of 6 positions (6.0 FTE) due to expanded duties, the establishment of one limited duration Administrative Law Judge position (1.0 FTE) to deal with increased workload as a result of the restructuring in the electric and telecommunication industries, and one law clerk position (0.50 FTE) to provide legal assistance to the Administrative Law Judges.

Real Estate Agency – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,205,311	5,908,122	6,626,854	6,311,101
FTE	31.66	31.66	30.00	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 fewer than 2% of total revenue. Activities relating to registration and filings for campgrounds, subdivisions, timeshares, and condominium developments contribute the remaining 2.6%. The agency estimated revenues in 2001-03 would 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.
- 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.

Legislative Adopted Budget

The Legislature approved a budget of $6.3 million Other Funds and 30.0 FTE, a 4.8% reduction from the Governor's budget. The budget includes several technical adjustments including reductions to reflect an employee compensation freeze, elimination of inflation adjustments for non-fixed costs, lower Attorney General rates, reduced assessments by the Department of Administrative Services, and lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments. The Legislature also approved an Information Technology package to allow the agency to implement the online processing of renewal and licensing applications, and an Examination Services package to permit examination of license applicants on demand in a secure computer-based environment.

Board of Tax Practitioners – Agency Totals

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	845,057	917,633	880,958	825,317
FTE	4.00	5.00	4.00	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.

Legislatively Adopted Budget

The legislatively adopted budget is 10.1% less than the legislatively approved 2001-03 budget. The adopted budget also has one less FTE than authorized for the 2001-03 biennium. 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. The budget reductions also reflect the statewide freeze on salaries, reduced employer PERS contribution rates, and reduced costs of services and supplies and government service charges.

ADMINISTRATION

Department of Administrative Services (DAS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	2,729,599	6,246,964	5,322,856	1,525,112
Lottery Funds	0	381,342	1,622,874	1,622,874
Other Funds	188,724,406	220,808,867	257,440,459	497,762,901
Federal Funds	473,407	765,168	0	100,000
Nonlimited	167,357,009	279,550,110	225,945,013	225,945,013
Nonlimited Debt Service	29,264,738	59,615,545	29,869,468	29,869,468
Total	**388,549,159**	**567,367,996**	**520,200,670**	**756,825,368**
FTE	836.40	933.48	919.45	896.15

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, computer, payroll, and accounting 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 bills 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	288,962	217,177	233,484	207,033
Other Funds	2,734,580	3,589,470	3,753,730	4,134,502
Total	**3,023,542**	**3,806,647**	**3,987,214**	**4,341,535**
FTE	13.63	14.50	17.00	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.

Legislatively Adopted Budget

The legislatively adopted budget reflects the internal transfer of three positions (3.0 FTE) to the Office and the elimination of one position (0.50 FTE) associated with the Highway Cost Allocation Study work. The Legislature, however, included funding for contracting out the Highway Cost Allocation Study. Other Funds needed to pay for the study will be provided by the Department of Transportation. The budget restores one-time reductions taken during special sessions. The budget takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

DAS – Budget and Management Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,785,619	8,700,870	8,815,806	8,353,724
Nonlimited	60,908	100,000	76,500	76,500
Nonlimited Debt Service	197,223	1,789,634	1,943,695	1,943,695
Total	**6,043,750**	**10,590,504**	**10,836,001**	**10,373,919**
FTE	35.04	34.50	33.50	33.50

Program Description

The Budget and Management Division establishes and enforces statewide budget standards and monitors agencies to ensure that funds are spent within legal and budgetary constraints. It is responsible for reviewing agency budget requests and developing and tracking the Governor's budget through the legislative process. The Division also helps to coordinate statewide bonded debt programs, including issuance of Certificates of Participation (COPs), Tax Anticipation Notes (TANs), Pension Obligation Bonds, 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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 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 takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

DAS – State Controllers Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	7,037,917	8,227,206	9,199,069	8,342,850
Nonlimited	8,473,610	11,581,700	13,332,954	13,332,954
Nonlimited Debt Service	5,368,787	5,319,175	2,653,328	2,653,328
Total	**20,880,314**	**25,128,081**	**25,185,351**	**24,329,132**
FTE	48.67	52.32	51.00	48.00

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 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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during special sessions. The budget takes into account reductions imposed during the 2002 special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. 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. The Legislature eliminated three vacant positions (3.0 FTE). The Legislature also approved funding for one policy option package of $79,678 to support statewide revenue services.

DAS – Information Resources Management Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	43,194,660	50,710,601	72,242,212	66,660,640
Nonlimited	60,726,627	79,779,518	99,873,238	99,236,151
Nonlimited Debt Service	813,442	1,337,752	2,118,888	2,118,888
Total	**104,734,729**	**131,827,871**	**174,234,338**	**168,015,679**
FTE	148.31	173.62	307.55	294.92

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 five 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).
- ***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 had a sixth section, Statewide Technical Education Program Services, that provides state employees with technical education and training. The Legislature approved the transfer of that section to the Human Resource Services Division for administrative and budgetary purposes.

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 carry-forward 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.

Legislatively Adopted Budget

The legislatively adopted budget continues the operations of the Division with the added staff (138.55 FTE) and functions associated with the transferred publishing and distribution program. 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 and four positions (4.0 FTE) and $1,526,882 Other Funds to the Human Resource Services Division. It also phases out seven limited duration positions authorized for the 2001-03 biennium. The budget takes into account reductions imposed during the 2002 special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

The budget for services and supplies and capital outlay is reduced by $4.5 million. 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. The budget was reduced also by $184,638 and 2.25 FTE to phase out the Statewide Directory Assistance Program. The Department will work with the Department of Corrections to transfer the function to that Department. The Legislature also eliminated seven vacant positions (6.38 FTE).

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 (see Note below)		$2,676,774

Note: The Legislature requested that the Department of Administrative Services unschedule $2.3 million of the $2.7 million provided for statewide technology infrastructure needs. The Legislature directed the Department to report to the Emergency Board on the results of its reorganization and to provide a financing plan for the infrastructure needs. The Legislature felt that efficiencies in state government will result from better coordination and consolidation of information technology resources within and between state agencies. The Legislature is supportive of the Department's efforts in this direction.

DAS – Public Employees Benefit Board

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	2,160,010	2,298,362	4,018,634	3,866,487
Nonlimited	504,730	49,377,206	28,448,793	28,448,793
Total	**2,664,740**	**51,675,568**	**32,467,427**	**32,315,280**
FTE	13.68	13.68	16.68	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 and Science University and two individuals have filed 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. Increased dealings with current and prospective providers also have placed additional demands on staff. Also, 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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. The budget includes three additional permanent positions (3.0 FTE) to cope with increased workload demands. It also includes $0.9 million to complete and maintain the new Benefit Management System approved by the 2001 Legislative Assembly. The budget includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

DAS – Human Resources Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	8,294,386	9,586,762	10,185,468	10,310,143
Nonlimited	657,179	694,639	1,360,272	1,997,359
Total	**8,951,565**	**10,281,401**	**11,545,740**	**12,307,502**
FTE	52.46	54.00	52.42	54.50

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 ($11.1 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. Approximately $1.9 million of revenue comes from specialized training sessions and executive recruitment services.

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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. It also includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. The Legislature approved the phase-out of a limited duration position, the elimination of two vacant positions (1.92 FTE) and the transfer-in of four training positions (4.0 FTE) from the Information Resources Management Division, and other personnel adjustments.

DAS – Procurement, Fleet, and Surplus Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	39,084,679	44,199,127	32,604,246	31,490,153
Nonlimited	40,735,084	39,716,409	13,841,508	13,841,508
Nonlimited Debt Service	2,146,666			
Total	**81,966,429**	**83,915,536**	**46,445,754**	**45,331,661**
FTE	234.14	265.21	116.80	117.80

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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. The Legislature approved 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 $0.4 million for additional Attorney General costs of legal sufficiency reviews and other purchasing related legal services. Additionally, $0.7 million of additional expenditure limitation is provided for computer support and maintenance costs of IRMD. The budget reflects adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. It also includes one purchasing position (1.0 FTE) to support contracting needs of the Public Employees Retirement System.

DAS – Facilities Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	24,934,805	28,808,109	32,440,517	31,115,494
Nonlimited	6,864,197	39,849,299	7,934,316	7,934,316
Nonlimited Debt Service	19,855,600	51,168,984	23,153,557	23,153,557
Total	**51,654,602**	**119,826,392**	**63,528,390**	**62,203,367**
FTE	185.32	204.25	207.50	206.50

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 years ago by the Legislature to help defray future facilities costs. Additionally, increased utility and security costs contribute to the increased uniform rent.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. It also includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. 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) to coordinate the sale of state surplus real property and to assist agencies in managing major construction and capital improvement projects. The Legislature eliminated one vacant position (1.0 FTE).

DAS – Risk Management Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,133	3,456	0	0
Other Funds	12,365,436	14,732,792	16,387,158	15,139,284
Nonlimited	35,880,153	44,264,000	45,813,855	45,813,855
Total	**48,252,722**	**59,000,248**	**62,201,013**	**60,953,139**
FTE	22.33	22.00	21.00	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 ($72.5 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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. The budget reflects adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	22,000
Other Funds	8,119,417	10,811,817	12,315,101	11,757,518
Total	**8,119,417**	**10,811,817**	**12,315,101**	**11,779,518**
FTE	56.24	71.58	70.50	69.50

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 ($11.8 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.

Legislatively Adopted Budget

The legislatively adopted budget restores one-time reductions taken during 2002 special sessions. The budget reflects adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. The Legislature also eliminated one vacant position (1.0 FTE). The $22,000 General Fund is for anticipated costs the Department will incur on behalf of four advocacy commissions that are expected to reduce staff and wind-down operations due to non-receipt of General Fund support.

DAS – Office for Oregon Health Policy and Research

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,337,159	1,532,260	1,554,253	1,296,079
Other Funds	1,852,972	4,533,234	1,615,291	1,536,372
Federal Funds	473,407	765,168	0	0
Total	**3,663,538**	**6,830,662**	**3,169,544**	**2,832,451**
FTE	18.87	18.82	14.50	13.75

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.

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 ended 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 is not expected to be available in the 2003-05 biennium. Temporary budget reductions were made during the 2002 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 impacted the nature and operation of the Office.

Legislatively Adopted Budget

The legislatively adopted budget continues budget reductions imposed by the 2002 fifth special session in by HB 5100. It includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. The Legislature eliminated one vacant position (0.75 FTE), reduced the budget by $600,000 General Fund for general health care research activities, and provided $475,000 General Fund for activities required by changes made to the Oregon Health Plan.

DAS – Oregon Progress Board

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	392,731	0	0
Other Funds	0	480,673	0	0
Total	**0**	**873,404**	**0**	**0**
FTE	0.00	0.00	3.00	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.

Legislatively Adopted Budget

The legislatively adopted budget provides no funding for the Oregon Progress Board, but does include three unfunded positions (3.0 FTE). The Legislature encouraged the Department to seek Other Funds support for the Board.

DAS – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	4,194,455	3,320,940	3,540,000	4,735,189
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.

Legislatively Adopted Budget

The legislatively adopted budget provides funding for 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. The Legislature also approved $1.2 million Other Funds expenditure limitation for capital improvement projects carried over into the 2003-05 biennium. Staffing shortages and hiring freezes kept the Department from completing a number of significant maintenance projects that had been previously approved for the 2001-03 biennium.

DAS – Capital Construction

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	28,419,642	24,494,780	50,292,001	24,292,002
Nonlimited	306,378	500,000	500,000	500,000
Nonlimited Debt Service	883,020	0	0	0
Federal Funds	0	0	0	100,000
Total	**29,609,040**	**24,994,780**	**50,792,001**	**24,892,002**
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) ($16.5 million). The $500,000 Nonlimited Other Funds relate to issuance costs for COPs.

Legislatively Adopted Budget

The legislatively adopted budget includes funding for 12 specific projects, some of which are the 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 ($6 million) and renovation of the Justice Building ($11.2 million). It also includes a $1 placeholder for future space management/acquisition expenditures and a $1 placeholder for Transportation Building renovation planning.

DAS – Miscellaneous Distributions

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	13,148,143	13,687,339	14,763,577	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.

Legislatively Adopted Budget

The legislatively adopted budget reflects anticipated Mass Transit Assessment collections and distribution based on budgeted employment numbers.

DAS – Special Payments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	615,287	1,206,523	878,336	0
Lottery Funds	0	381,342	1,622,874	1,622,874
Other Funds	0	6,198,954	0	276,028,543
Total	**615,287**	**7,786,819**	**2,501,210**	**277,651,417**
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.

Legislatively Adopted Budget

The legislatively adopted budget provides no General Fund payment to the Children's Trust Fund, but does provide $1,622,874 Lottery Funds for debt service on Lottery Bonds previously issued for Oregon Public Broadcasting. The Legislature also provided Other Funds expenditure limitation of $59.3 million and $216.7 million, respectively, for debt service on appropriation bonds issued in March 2003 to balance the 2001-03 budget, and debt issuance and debt service costs of Pension Obligation Bonds authorized to pay the state's share of the Public Employees Retirement System's unfunded actuarial liability.

DAS – Community Development Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	481,058	1,900,770	1,694,505	0
Other Funds	545,828	85,000	0	0
Total	**1,026,886**	**1,985,770**	**1,694,505**	**0**
FTE	7.00	8.00	7.00	0

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 2002 fifth special session. However, the previous Governor restored the funding by using his line item veto authority.

Legislatively Adopted Budget

The Legislature transferred this program and its funding to the Governor's Office.

DAS – Arrest and Return

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	994,047	962,278	0
Other Funds	0	30,170	31,226	0
Total	**0**	**1,024,217**	**993,504**	**0**
FTE	0.00	1.00	1.00	0

Program Description

Extradition is a gubernatorial function and the Arrest and Return Program sends one officer to return Class A and B felons nationwide. For budgetary purposes, the Program was placed in the Department, although it is overseen by the Governor's Office.

Legislatively Adopted Budget

The Legislature transferred this activity to the Governor's Office.

Commission on Asian Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	131,384	139,208	166,867	0
Other Funds	17,130	40,886	27,367	173,648
Total	**148,514**	**180,094**	**194,234**	**173,648**
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 fell to a total of $6,250. The donations that are raised are generally to support the agency sponsorship of Asian American Heritage Month activities.

Budget Environment

The agency's expenses were 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. The Commission was able to raise only $6,250 in donations during the 2001-03 biennium, however. Most of these donations are provided to cover the costs of sponsoring a one-day outdoor festival in downtown Portland in honor of Asian American Heritage Month. Some of the donations support general agency operations, however, and therefore the decline in donations affected Commission functions beyond the festival.

The viability of the Commission is being challenged by the state's General Fund revenue shortfall. During the 2003 session, the Legislature suspended General Fund support for commission expenses, effective April 1, 2003, as part of efforts to rebalance the state budget after the March 2003 Economic and Revenue Forecast projected a further decline in General Fund revenue. The Commission dismissed its Executive Director and suspended operations. The 2001-03 legislatively approved budget included $14,800 General Fund to pay costs relating to this suspension, including unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support.

Legislatively Adopted Budget

The legislatively adopted budget suspends General Fund support for the Commission for the 2003-05 biennium. The Governor's budget had included General Fund to support ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction had been restored in his budget. The Legislature shifted the $166,867 General Fund in the Governor's budget to Other Funds, and then applied adjustments to eliminate support for merit increases, cost of living adjustments, and inflation. The budget also includes adjustments to reflect revisions in state government service charge assessments. The budget approves one position (1.0 FTE) for the Commission to employ an Executive Director.

The source of Other Funds is to include donations, grants, contract funds, and sales income. No such fund sources have been identified by the Commission, however, and operations remain suspended. Commission members will need to raise operating funds without the assistance of paid staff, or of funding for services and supplies costs. The Legislature appropriated $22,000 General Fund to the Department of Administrative Services to pay ongoing costs relating to the shutdown of the advocacy commissions (i.e., Commission on Asian Affairs, Commission on Black Affairs, Commission on Hispanic Affairs, and Commission for Women). A portion of these funds may be used, if needed, to pay unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support for the Commission on Asian Affairs. Total shutdown related costs for the four commissions may total as much as $75,000, and will primarily be a function of unemployment insurance benefit claims and of whether the Commission for Women suspends operations. If total shutdown-related costs exceed $22,000, the Department of Administrative Services may request an allocation from the Emergency Board to pay them.

Commission on Black Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	121,997	129,147	160,194	0
Other Funds	29,321	39,354	21,449	171,969
Total	**151,318**	**168,501**	**181,643**	**171,969**
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 were received in the 2001-03 biennium.

Budget Environment

The agency's expenses were 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. The Commission was able to raised only $200 in donations during the 2001-03 biennium, however.

The viability of the Commission is being challenged by the state's General Fund revenue shortfall. During the 2003 session, the Legislature suspended General Fund support for commission expenses, effective April 1, 2003, as part of efforts to rebalance the state budget after the March 2003 Economic and Revenue Forecast projected a further decline in General Fund revenue. The Commission dismissed its Executive Director and suspended operations. The 2001-03 legislatively approved budget included $12,200 General Fund to pay costs relating to this suspension, including unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support.

Legislatively Adopted Budget

The legislatively adopted budget suspends General Fund support for the Commission for the 2003-05 biennium. The Governor's budget had included General Fund to support ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction had been restored in his budget. The Legislature shifted the $160,194 General Fund in the Governor's budget to Other Funds, and then applied adjustments to eliminate support for merit increases, cost of living adjustments, and inflation. The budget also includes adjustments to reflect revisions in state government service charge assessments. The budget approves one position (1.0 FTE) for the Commission to employ an Executive Director.

The source of Other Funds is to include donations, grants, contract funds, and sales income. No such fund sources have been identified by the Commission, however, and operations remain suspended. Commission members will need to raise operating funds without the assistance of paid staff, or of funding for services and supplies costs. The Legislature appropriated $22,000 General Fund to the Department of Administrative Services to pay ongoing costs relating to the shutdown of the advocacy commissions (i.e., Commission on Asian Affairs, Commission on Black Affairs, Commission on Hispanic Affairs, and Commission for Women). A portion of these funds may be used, if needed, to pay unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support for the Commission on Black Affairs. Total shutdown related costs for the four commissions may total as much as $75,000, and will primarily be a function of unemployment insurance benefit claims and of whether the Commission for Women suspends operations. If total shutdown-related costs exceed $22,000, the Department of Administrative Services may request an allocation from the Emergency Board to pay them.

Capitol Planning Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	225,701	269,403	326,439	0
Positions (FTE)	1.63	1.63	1.83	0

Program Description

The Capitol Planning Commission was created in 1949 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 was 31,877 FTE as of November 1, 2001. The assessment is collected by the Department of Administrative Services (DAS) as part of the state government service charge. The proposed 2003-05 assessment rate, on average, was 11% higher than in 2001-03, and would have provided $304,031 in revenue. Although received by the Commission as Other Funds, at least a third of the agency's revenue source had originated from the General Fund.

Budget Environment

The Commission's funding has supported 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 was expected to include review and approval of building improvements and renovation, long-range planning, and the updating and completion of area plans. The statewide capital construction budget adopted for 2003-05 does not include funding for project work within the Commission's jurisdiction. Due to the state's revenue shortfall, legislative budget policy implemented in the 2003 session affected Other Funds agencies, as well as those directly funded with General Fund.

Legislatively Adopted Budget

The Commission was not funded for the 2003-05 biennium. HB 3597 was enacted to suspend the agency's responsibilities for the biennium, and temporarily transfer to the Department of Administrative Services the authority to manage the Executive Residence Account. The measure also provides DAS with authority to spend $36,630 for purposes of paying unemployment claims, staff vacation payouts, and any further unanticipated expenses related to the Commission.

Employment Relations Board (ERB) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,279,129	1,280,260	1,400,508	1,299,312
Other Funds	1,290,349	1,703,446	1,639,107	1,292,046
Total	**2,569,478**	**2,983,706**	**3,039,615**	**2,591,358**
FTE	17.73	16.00	14.00	12.00

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,063,200	1,278,766	1,305,258	1,034,305
Total	**1,063,200**	**1,278,766**	**1,305,258**	**1,034,305**
FTE	7.12	7.12	6.12	5.12

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 employees in state agencies. The 2003-05 projected revenues of $1,085,400 are based on an assessment rate of $1.35 per employee per month and 33,500 covered state employees. Statewide budget balancing efforts may alter the number of employees subject to the assessment and thus significantly effect the available revenue. The program's ending balance is estimated at approximately five months of operating expenditures.

Budget Environment

The state agency assessment is covering an increasing portion of the Board's total budget. During the 1993-95 biennium, the assessment funded approximately 33% of the Board's total expenditures versus 40% of the expenditures included in the 2003-05 legislatively adopted budget. Based on prior years' annual reports and aggregate case data, an estimated one-third of the total cases are associated with state government. The Board 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, a workload measure to quantify the additional hours or costs associated with state government cases has not been developed.

Although this program's budget was not reduced by special session actions during the 2001-03 interim, the Board did delay filling vacant positions in order to use Other Funds savings to backfill General Fund reductions in the Local Government Program.

Legislatively Adopted Budget

The legislatively adopted budget (LAB) continues the management actions taken during the 2001-03 biennium to address the special session reductions. These 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. The LAB also eliminates the inflation factor for most services and supplies line-items and projected increases for employee merit increases scheduled to occur after July 1, 2003, and reduces the Public Employees Retirement System employer contribution rates and the Attorney General hourly charges. Rather than adopting a 21% increase in the assessment rate, as proposed in the Governor's budget, the LAB eliminates a Hearing Officer position (1.0 FTE) to balance the budget.

The Board was directed to develop a method of funding that is consistent with the workload requirements of each program and to present future budget requests that ensure the assessment only covers the costs associated with the State Government Labor Relations program.

ERB – Local Government Labor Relations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,279,129	1,280,260	1,400,508	1,299,312
Other Funds	227,149	424,680	333,849	257,741
Total	**1,506,278**	**1,704,940**	**1,734,357**	**1,557,053**
FTE	10.61	8.88	7.88	6.88

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 anticipated 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. The LAB anticipates total revenues of approximately $224,000.

Budget Environment

Since 1991-93, General Fund support for this program has been reduced by 36%; 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.

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.

Legislatively Adopted Budget

The LAB reduces funding for rent, employee training, and office expenses; eliminates the inflation factor for most services and supplies line-items and projected increases for employee merit increases scheduled to occur after July 1, 2003; and reduces the Public Employees Retirement System employer contribution rates and Attorney General hourly charges. Based on a revised forecast of revenue available from fees for services, the LAB also eliminated two vacant positions, a Mediator and an Office Specialist (2.0 FTE).

Government Standards and Practices Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	762,633	889,046	613,772	559,701
Other Funds	7,182	9,662	6,565	5,902
Total	**769,815**	**898,708**	**620,337**	**565,603**
Positions (FTE)	4.00	4.00	3.00	2.80

Program Description

The mission of the Government Standards and Practices Commission is to impartially administer the regulatory provisions of government standards and practices, lobby regulation, and certain 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 has been 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 the 2001 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 also experienced a series of budget reductions after its 2001-03 budget was adopted in May 2001. To manage a total decrease of approximately $93,000, the agency's two staff investigators were reduced to half-time status effective November 1, 2002.

Legislatively Adopted Budget

The legislatively adopted budget reflects a decrease of 13.1% from 2001-03 adopted expenditure levels. However, compared to legislatively approved expenditures of $678,390, excluding extraordinary Attorney General and legal costs, the decrease is 16.6%. The lower level is due chiefly to three elements. One is a phase-out of one-time expenditures of $155,500 for prevailing party attorney fees and extraordinary Attorney General costs.

The roll-up of special session reductions totaled $317,332. The budget restores $160,997 in order to maintain staffing at a level that still allows for some essential functionality. A vacant Investigator position was eliminated, leaving the agency with a full-time Executive Director, one full-time Investigator, and one Executive Support Specialist at 0.8 FTE. With three positions and 2.8 FTE, in 2003-05 positions are down 25% and FTE are down 6.7% from the previous three biennia.

The last reduction includes a number of standard adjustments, including lower Department of Administrative Services assessments, a reduction in the hourly Attorney General rate, elimination of inflation adjustments for most services and supplies expenditures, an employee compensation freeze, a reduction in the expenditure limitation to reflect lower Public Employee Retirement System employer contribution rates, lower Secretary of State assessment, and elimination of the Capitol Planning Commission assessment.

Because of the impact of the state's revenue shortfall, the Commission was directed to work with state and local government agencies to examine alternative funding sources and potential complaint mitigation measures.

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 expenses. 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	8,641,519	7,985,779	7,373,746	8,087,646
Lottery Funds	0	0	0	610,000
Other Funds	1,103,326	1,239,331	971,182	1,581,417
Total	**9,744,845**	**9,225,110**	**8,344,928**	**10,279,063**
FTE	47.05	46.00	36.50	44.50

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 2001-03 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 also reduced 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.

Legislatively Adopted Budget

The legislatively adopted budget reflects permanent reductions made during the special sessions. The Legislature reduced the budget for the statewide salary freeze, reduced employer PERS contribution rates, and reduced costs of goods and services and government service charges. These accounted for General Fund savings of $0.4 million. Additionally, the budget was reduced by $200,000 General Fund as an unspecified reduction to help balance the overall budget.

Two activities previously budgeted in the Department of Administrative Services were transferred to the Office of the Governor to better align budgetary accountability. The Arrest and Return Program (1.0 FTE and $0.9 million General Fund) is a gubernatorial function and is now included in the budget of the Office of the Governor. The activities of the former Community Solutions Team were statutorily defined in HB 2011 and also placed in the Office of the Governor under the new name of Economic Revitalization Team. This resulted in the transfer of 7.0 FTE and an increase in the budget by $1.6 million ($0.4 million General Fund, $0.6 million Lottery Funds, and $0.6 million Other Funds). A stable funding source for the Economic Revitalization Team was not identified and the Legislature expects the 2005-07 budget request to include one.

Commission on Hispanic Affairs – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	128,153	108,455	146,892	0
Other Funds	93,150	109,741	81,690	224,441
Total	**221,303**	**218,196**	**228,582**	**224,441**
FTE	1.50	1.00	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 early in the 2001-03 biennium.

Budget Environment

The agency's expenses were 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. The Commission was successful raising funds through its Spanish language instruction program.

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 2003 session, the Legislature suspended General Fund support for commission expenses, effective April 1, 2003, as part of efforts to rebalance the state budget after the March 2003 Economic and Revenue Forecast projected a further decline in General Fund revenue. The Commission dismissed its Executive Director and suspended operations. The 2001-03 legislatively approved budget included $6,500 General Fund to pay costs relating to this suspension, including unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support.

Legislatively Adopted Budget

The legislatively adopted budget suspends General Fund support for the Commission for the 2003-05 biennium. The Governor's budget had included General Fund to support ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction had been restored in his budget. The Legislature shifted the $146,892 General Fund in the Governor's budget to Other Funds, and then applied adjustments to eliminate support for merit increases, cost of living adjustments, and inflation. The budget also includes adjustments to reflect revisions in state government service charge assessments. The budget approves one position (1.0 FTE) for the Commission to employ an Executive Director.

The source of Other Funds is to include donations, grants, contract funds, and sales income. No such fund sources have been identified by the Commission, however, and operations remain suspended. Commission members will need to raise operating funds without the assistance of paid staff, or of funding for services and supplies costs. The Legislature appropriated $22,000 General Fund to the Department of Administrative Services to pay ongoing costs relating to the shutdown of the advocacy commissions (i.e., Commission on Asian Affairs, Commission on Black Affairs, Commission on Hispanic Affairs, and Commission for Women). A portion of these funds may be used, if needed, to pay unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support for the Commission on Hispanic Affairs. Total shutdown related costs for the four commissions may total as much as $75,000, and will primarily be a function of unemployment insurance benefit claims and of whether the Commission for Women suspends operations. If total shutdown-related costs exceed $22,000, the Department of Administrative Services may request an allocation from the Emergency Board to pay them.

Oregon State Library (OSL) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,125,068	3,127,377	3,279,864	2,594,626
Other Funds	4,748,557	5,102,149	5,669,289	6,112,874
Federal Funds	3,892,223	3,932,219	4.160,077	4,128,563
Total	**11,765,848**	**12,161,745**	**13,109,230**	**12,836,063**
FTE	44.38	44.38	45.38	43.63

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 Measure 47 (1996) and Measure 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.

Legislatively Adopted Budget

The Legislature approved a budget of $12,836,063 total funds. The General Fund budget was $2,594,626, a decrease of 21% from the Governor's budget.

OSL – Administrative Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	424,510	403,277	462,892	18,096
Other Funds	484,143	522,711	627,793	1,026,205
Total	**908,653**	**925,988**	**1,090,685**	**1,044,301**
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.

Legislatively Adopted Budget

The Legislature approved a budget of $1,044,301 total funds, a 4.2% reduction from the Governor's budget, and 5.63 FTE. The reduction resulted primarily from the decision to use part of the agency's Other Funds ending balance, on a one-time basis, to fund the Administrative Services program. The General Fund in the Administrative Services program was then removed from the budget. The budget included a number of standard adjustments including lower Department of Administrative Services assessments, a reduction in the hourly Attorney General rate, elimination of inflation adjustments for services and supplies expenditures, an employee compensation freeze, and reductions to reflect lower Public Employee Retirement System (PERS), Capitol Planning Commission, and Secretary of State Audits Division assessments.

OSL – Library Development

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,689,562	1,611,775	1,438,185	1,390,064
Other Funds	23,425	50,756	52,590	521,192
Federal Funds	3,892,223	3,932,219	4,160,077	4,128,563
Total	**5,605,210**	**5,594,750**	**5,650,852**	**6,039,819**
FTE	4.75	4.75	4.75	5.50

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.

Legislatively Adopted Budget

The Legislature approved a budget of $6,039,819 total funds, a 6.5% increase in the Governor's budget, and 5.50 full-time equivalent positions. The budget funds the Ready to Read grant programs to local libraries at about $0.83 per child per year, the same as the Governor's budget. The budget included a number of standard adjustments including lower Department of Administrative Services assessments and telecommunication charges, a reduction in the hourly Attorney General rate, elimination of inflation adjustments for services and supplies expenditures, the employee compensation freeze, and reductions to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

The Legislature approved the corresponding budget implications of SB 12 in the agency's budget. SB 12 establishes a new federally funded program to provide grants and other assistance for the statewide licensing of electronic databases for libraries. There was no net change to the agency's Federal Funds budget.

Other Funds revenue of $470,000 will be collected from local libraries as they pay their share of the estimated database licensing costs during 2003-05. The Legislature increased the agency's Other Funds expenditure limitation by $470,000 in order to allow them to utilize this revenue to cover licensing costs.

OSL – Talking Book and Braille Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,010,996	1,112,325	1,378,787	1,186,466
Other Funds	84,842	173,252	140,112	183,893
Total	**1,095,838**	**1,285,577**	**1,518,899**	**1,370,359**
FTE	10.75	10.75	10.75	10.25

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 the 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 budget. The 2003-05 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.

Legislatively Adopted Budget

The Legislature approved a budget in the amount of $1,370,359, a 9.8% decrease from the Governor's budget, and 10.25 full-time equivalent positions. The budget included a number of standard adjustments including lower Department of Administrative Services assessments and telecommunication charges, a reduction in the hourly Attorney General rate from $109 to $98, elimination of inflation adjustments for services and supplies expenditures, an employee compensation freeze, and reduces the expenditure limitation to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments.

OSL – Government Research and Electronic Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	4,156,147	4,325,430	4,848,794	4,381,584
Total	**4,156,147**	**4,325,430**	**4,848,794**	**4,381,584**
FTE	23.25	23.25	23.25	22.25

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.

Legislatively Adopted Budget

The Legislature approved a budget in the amount of $ 4,381,584, a 9.6% decrease in the Governor's budget, and 22.25 FTE. The budget included a number of standard adjustments including lower Department of Administrative Services assessments, a reduction in the hourly Attorney General rate, elimination of inflation adjustments for services and supplies expenditures, an employee compensation freeze, reduction in the expenditure limitation to reflect lower Public Employee Retirement System, Capitol Planning Commission, and Secretary of State Audits Division assessments, and the elimination of two vacant librarian positions. In addition, the Legislature approved the funding of one position (1.0 FTE) to staff the Oregon.gov Search Engine.

Oregon Liquor Control Commission (OLCC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	71,305,870	76,897,955	81,308,000	82,523,767
Nonlimited	0	2,087,000	2,160,045	2,160,045
Total	**71,305,870**	**78,984,955**	**83,468,045**	**84,683,812**
FTE	215.02	217.02	200.67	202.67

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.

Legislatively Adopted Budget

The Legislature approved a budget of $84.7 million total funds, a 1.5% increase from the Governor's budget for 2003-05 and 207 positions (202.27 FTE). This is $6.1 million or 7.9% more than the 2001-03 legislatively approved level. The 2003-05 budget includes reduction packages totaling $2.5 million 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 budget incorporates a reduction of 12 positions (11.9 FTE) in the Regulatory and Administration and Support Services programs, reductions in services and supplies, and capital outlay. Reductions in these programs will slow the licensing and investigation services by approximately 30 days. The reductions will not negatively impact revenue generation. Increases in the recommended budget reflect adjustments for agents' compensation and carrying forward expenditure limitation to complete work on a documents management and workflow information systems project.

Specific details are discussed under each program unit.

OLCC – Merchandising

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	5,650,323	6,289,471	6,174,065	6,011,877
Nonlimited	0	3,187,000	2,160,045	2,160,045
Total	**5,650,323**	**9,476,471**	**8,334,110**	**8,171,922**
FTE	48.42	48.42	48.17	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 divisions within 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*** *(8.75 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.

Legislatively Adopted Budget

The Legislature approved a budget of $8.2 million total funds and 49 positions (48.17 FTE). Technical adjustments were approved in support of statewide policy decisions and recommendations based on prior actions taken by the Joint Committee on Ways and Means. The adjustments include the following decreases:

- $52,752 Other Funds to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003;
- $9,386 Other Funds to reflect reductions in liability insurance costs and telecommunications costs;

- $24,535 Other Funds to eliminate the inflation factor originally included in the Governor's budget for most services and supplies and capital outlay line-items; and
- $75,515 to reflect reductions in the PERS employer rates.

The Legislature restored $66,000 Other Funds for one-time administrative reductions taken in the 2002 second special session; phased out $832,304 Other Funds associated with one-time expenses related to the Inventory Management System; and adjusted the base budget by $73,045 Other Funds to reflect the increased cost for processing credit card transactions.

OLCC – Regulatory

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	12,176,272	13,603,716	13,298,889	13,378,909
FTE	102.00	104.00	91.00	93.00

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*** *(20.0 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.

Legislatively Adopted Budget

The Legislature approved a budget of $13.3 million Other Funds and 94 positions (93.00 FTE). Technical adjustments in support of statewide policy decisions and recommendations based on prior actions taken by the Joint Committee on Ways and Means include the following decreases:

- $365,424 Other Funds to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003;
- $9,157 Other Funds to reflect reductions in liability insurance costs;
- $30,194 Other Funds to eliminate the inflation factor originally included in the Governor's budget for most services and supplies line-items; and
- $176,786 Other Funds to reflect reduction in the PERS Employer rates.

The Legislature also:

- Increased $394,000 Other Funds to carry-forward expenditure limitation to complete the installation of a Document Management and Workflow Information System.
- Restored one Compliance Specialist 3 and one Administrative Specialist 1 (2.0 FTE) in the Server Education program for a cost of $267,581 Other Funds (the 2002 fifth special session eliminated $1,460,502 Other Funds and 11.0 FTE as a result of passage of HB 5100).
- Increased $15,352 Other Funds to fund overtime payments for sports inspection services at the University of Oregon and Oregon State University. The services assist the two universities in limiting student drinking

and ensuring adult patrons are drinking responsibly during sports events. The overtime costs will be reimbursed by the universities.

OLCC – Administration and Support Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	12,283,861	12,071,530	13,696,633	13,101,533
FTE	64.60	64.60	61.50	61.50

Program Description

The Support Services Program consists of three divisions:

- ***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** (27.0 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.

Legislatively Adopted Budget

The Legislature adopted a budget of $13.1 million Other Funds and 64 positions (61.50 FTE). The adopted budget is $0.6 million Other Funds less than the Governor's budget and eliminates four positions including an 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 Legislature restored $192,610 for one-time administrative reductions taken in the 2002 second special session. Technical adjustments include the following decreases:

- $96,050 Other Funds from the elimination of 1.0 full-time equivalent vacant Office Specialist 2 position;
- $147,984 Other Funds to remove projected expenditures for employee merit increases scheduled to occur after July 1, 2003;
- $37,026 Other Funds to reflect reductions in the Department of Administrative Services assessments and liability insurance costs;
- $30,782 Other Funds to reflect an Attorney General rate change, which reduced the charge to agencies to $98 from $109 per hour;
- $130,596 Other Funds to eliminate the inflation factor originally included in the Governor's budget for most services and supplies and capital outlay line-items;
- $137,955 to reflect the reduction in PERS employer rates; and
- $14,707 to reflect the reduction in fees assessed by the Secretary of State Audits Division.

The budget also reflects the elimination of the cost-of-living adjustments for positions with a salary range 38 or higher as a result of the 2002 third special session; and elimination of $1,052,869 Other Funds and 4.50 FTE as a result of passage of HB 5100 during the 2002 fifth special session.

OLCC – Agents' Compensation

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	40,585,457	44,734,248	47,932,458	49,832,458
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 $44.4 million 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."

Legislatively Adopted Budget

The Legislature approved a budget of $49.8 million Other Funds for this program, increasing the agents' compensation to an average rate of approximately 8.88%, an increase of .34% over the Governor's recommended budget.

OLCC – Capital Improvements

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	609,957	198,990	205,955	198,990
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.

Legislatively Adopted Budget

The Legislature approved a budget of $198,990 Other Funds. Technical adjustments in support of statewide policy decisions and recommendations include a decrease of $6,965 Other Funds to eliminate the inflation factor originally included in the Governor's budget for capital outlay. 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).
- Partially concrete the warehouse parking lot ($75,000).

Public Employees Retirement System (PERS) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	48,050,621	47,868,155	50,058,843	62,723,473
Nonlimited	3,337,046,225	3,623,591,048	4,209,547,757	4,209,547,757
Total	**3,385,096,846**	**3,671,459,203**	**4,259,606,600**	**4,272,271,230**
FTE	217.62	219.12	254.00	324.22

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	46,807,047	46,396,456	48,449,793	61,246,071
Nonlimited	3,337,046,225	3,623,591,048	4,209,547,757	4,209,547,757
Total	**3,383,853,272**	**3,669,987,504**	**4,257,997,550**	**4,270,793,828**
FTE	217.62	215.14	243.81	314.03

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 (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 2003 Legislature, with support from the Governor, enacted major statutory reform of the system. 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.

Legislatively Adopted Budget

The legislatively adopted budget includes actions taken on requests for funding and position authority contained in the Governor's budget. It also includes other funding and position authority necessary for the agency to cope with: (a) workload increases not anticipated in the Governor's budget; and (b) PERS reform legislation passed during the session.

<u>Actions taken on the Governor's budget</u>

The Governor's budget included funding for inflationary increases in the costs of goods and services, funding for merit and step increases, and a number of additional requests. Presented below is a summary of those additional requests, the amounts approved by the Legislature, and adjustments made for the statewide salary freeze and reduced costs for goods and services and government service charges. Further, legislation affecting the Public Employees Retirement System caused a substantial reduction in employer contribution rates for the biennium. The Legislature made adjustments to all agency budgets to reflect those savings. Also presented are additional adjustments made by the Legislature.

Description	Request		Approved	
	FTE	Amount	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	6.0	$870,858
Adjustments to increase budget for higher than expected costs		$652,000		$577,000
Additional staff and funding to improve data and calculation accuracy	12.0	$1,288,991	0.0	none
Additional staff and funding to clear current workload backlogs	11.0	$1,107,636	11.0	$1,107,636
Additional staff and funding to improve productivity	1.0	$439,414	1.0	$431,921
Additional staff and funding to address current and future workload	4.5	$465,550	4.5	$465,550
Additional staff and funding to provide services under proposed legislation (Note)	3.0	$321,474	0.0	none
Budget reduction for statewide salary freeze				($747,129)
Budget reduction for reduced costs of goods and services and government service charges				($468,554)
Savings from reduced PERS employer contribution rates				($1,230,324)
Add internal auditor position			1.0	$137,727
Add positions to complete business rules documentation			3.0	$330,496
Carryover unused limitation provided for information technology initiatives approved in 2001-03 biennium				$3,082,947
Other technical adjustments			1.0	$192,820

Note: Subsequent to development of the budget, the Governor decided not to introduce the proposed legislation so no additional funding and position authority was needed.

The Legislature approved an additional internal auditor position that was not included in the budget request. PERS' budget request included $75,000 to pay for internal audit work it expected to contract to the Secretary of State Audits Division. The Legislature instead approved an internal auditor position to help strengthen the PERS internal audit function. The Legislature also approved three limited duration positions to finish documentation of PERS' business rules. It also increased the budget request by $3.1 million of carryover expenditure limitation for information technology initiatives that had been approved, but not expended, in the 2001-03 biennium. The Legislature did not approve funding requested for improved data and calculation accuracy. The Legislature felt that agency capacity would be severely strained by the increased workload created by an unprecedented number of retirements being processed and other legislation passed. The issue of data and calculation accuracy could be addressed later.

The Legislature also approved other technical adjustments to the budget. In addition, the Legislature approved $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 had been off-budget and accounted for in a suspense account. This brought the receipt and disbursement of the funds into PERS' budget. There was no additional operational cost or additional FTE associated with this change.

<u>Actions taken due to increased workload and new legislation</u>
Uncertainty about what legislation the Legislature would enact to modify retirement benefits created a "rush to the exits" by public employees eligible for retirement. This rush created an unforeseen workload for PERS staff that was not included in the budget request. To address this temporary workload, the Legislature approved 14 limited duration positions (6.24 FTE) and expenditure limitation of $571,492.

In addition, the Legislature passed a number of bills to reform the Public Employees Retirement System that dramatically affected PERS workload. HB 2004 mandated the use of updated mortality tables for computation of retirement benefits effective July 1, 2003. It also required additional retirement benefit computations to ensure that retirement benefits under updated mortality tables are not less than retirement benefits earned as of June 30, 2003. The labor-intensive nature of the calculations caused the Legislature to approve 41 new positions (25.15 FTE) and additional expenditure limitation of $5.1 million. HB 2003 made a number of other changes to administration of current pension plan benefit computations. The Legislature again approved additional positions (56 positions, 48.83 FTE) and an additional $7.4 million Other Funds expenditure limitation to implement the changes required by the bill.

The Legislature also passed legislation for a successor retirement plan in HB 2020. PERS is required to implement a new information system to accommodate the new plan. Funding sources and budget amounts were not determined by the end of session so the Legislature approved Other Funds expenditure limitation of $3 to establish legislative authority for implementation. The $3 was separated as follows: $1 for implementation, $1 for debt issuance costs in the event the new system will be acquired using debt instruments, and $1 to pay future debt service if debt is issued. PERS is expected to submit a financing plan and request for additional expenditure limitation to the Emergency Board.

Finally, the Legislature requested that the Department of Administrative Services remove (unschedule) $29 million from the allotment process until the new PERS board has had the opportunity to review agency operations and priorities and report to the Emergency Board on the direction it is taking with respect to oversight of agency operations. HB 2005 created a new Board that replaced the existing Board on September 1, 2003. The Legislature wanted the new Board to report to the Emergency Board after it had time to understand the PERS budget and activities. Withholding $29 million from the allotment process would allow the Board until the Spring of 2004 to become acquainted with PERS operations before it needed to access the funds.

PERS – Deferred Compensation Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	1,243,574	1,471,699	1,609,050	1,477,402
FTE	0.00*	10.50	10.19	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.

Legislatively Adopted Budget

The legislatively adopted budget continues the current operation of the program. It also approved a position reclassification, a new position (1.0 FTE), and 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. The Legislature also reduced the budget for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges.

Oregon Racing Commission – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	2,887,014	4,031,076	4,763,041	4,675,855
Total	**2,887,014**	**4,031,076**	**4,763,041**	**4,675,855**
FTE	18.97	17.68	17.68	17.50

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 Governor's budget estimated $0.6 million in Hubs revenue would 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.

Legislatively Adopted Budget

The legislatively adopted budget is 16% higher than the 2001-03 approved budget. The budget was reduced $220,206 to reflect reductions made to implement the statewide salary freeze, lower Attorney General and Department of Administrative Services assessment rates, and elimination of the inflation allowance for most non-fixed services and supplies. The Governor's budget reduction of $25,000 for services and supplies was increased to $75,000 by the Legislature to more accurately reflect past expenditure history. The budget also eliminated 2 positions and 0.40 FTE (Relief Veterinarian and Relief Steward) some of the funding for which was moved to Professional Services to better reflect the true nature of these expenditures. This action resulted in a net reduction of $45,541. An Office Specialist 1 position (1.0 FTE) and $68,523 was added to address workload issues in the Commission's office staffing. The budget included $823,333 for payments to benefit the Oregon pari-mutuel racing industry due to anticipated increases in Hub revenue, which is $278,667 more than the level assumed in the Governor's budget. These payments represent the two-thirds portion of the gross receipts tax on Hubs wagering that is dedicated to the development of Oregon's racing industry.

The Commission's ending balance was reduced to a level that would support approximately three months of operating expenses. The Commission is expected to transfer nearly $1.1 million more to the General Fund than was assumed in the Governor's budget as a result of lowering the ending balance allowed to be retained by the Commission, expenditures reductions, and a higher forecast of revenue from multi-jurisdictional Hubs.

Department of Revenue (DOR) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	111,204,026	117,831,874	132,081,313	104,734,536
Other Funds	16,820,075	19,829,147	21,687,886	53,091,342
Nonlimited	182,667	186,544	219,100	219,100
Total	**128,206,768**	**137,847,565**	**153,988,299**	**158,044,978**
FTE	924.66	959.22	942.80	987.73

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 Legislature approved the use of Cigarette and Other Tobacco Tax receipts to replace General Fund for Tobacco Task Force efforts and other departmental operations. This funding shift is discussed in detail in the analysis of the Business and Personal Tax and Compliance Divisions.

The following table displays sources and amounts of estimated Other Funds revenues for 2003-05:

SOURCE	2003-05 ESTIMATED
Cigarette and Other Tobacco Tax Collections	$ 33,086,000
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	**$ 54,962,000**

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 $4.4 million General Fund based on special session actions during the interim. The Department received an additional $2.9 million 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 purchasing supplies and equipment. Because the most significant reduction resulted from failure of Ballot Measure 28, the Department began to lay off about 126 persons in February 2003. However, most of the reductions were restored by the Legislature during the 2003 regular session and the Department was able to bring back staff necessary to continue tax compliance and enforcement efforts for the 2001-03 biennium.

Legislatively Adopted Budget

The legislatively adopted budget generally restored budget reductions imposed after the special election. It also provides additional resources to enhance tax collection efforts. Ten vacant positions were eliminated and the savings were used to fund needed services and supplies costs. The budget actions are discussed in more detail under the various operating programs below.

DOR – Executive Section

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,747,732	1,808,356	3,127,235	2,936,100
Other Funds	255,451	61,082	287,097	279,536
Total	**4,003,183**	**1,869,438**	**3,414,332**	**3,215,636**
FTE	22.16	6.00	18.01	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.

Legislatively Adopted Budget

The Legislatively Adopted 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 reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

DOR – Administrative Services Section

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	213,995	3,490,144	684,458	443,098
Other Funds	752,592	375,012	93,157	57,926
Total	**966,587**	**3,865,156**	**777,615**	**501,024**
FTE	0.00	31.01	0.00	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.

Legislatively Adopted Budget

For internal budgeting purposes, the Legislature approved a budget that 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. The budget includes adjustments for reduced costs of goods and services and reduced government service charges.

DOR – Information Processing Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	32,488,160	35,488,379	38,472,255	37,187,333
Other Funds	4,892,481	3,815,226	4,124,846	4,095,831
Total	**37,380,641**	**39,303,605**	**42,597,101**	**41,283,164**
FTE	292.88	291.34	278.50	281.99

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. However, much of the funding was restored to allow the Division to continue its support of tax collection efforts.

Legislatively Adopted Budget

The legislatively adopted 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 budget generally restores reductions imposed after the special election. It also reflects positions phased out or eliminated during the interim. The budget takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges.

The Legislature eliminated one vacant position (0.64 FTE) and added five positions (4.13 FTE) to support tax compliance and collection efforts included as part of a revenue enhancement package in the Personal Tax and Compliance Division. The Legislature also provided $0.3 million General Fund for the positions.

DOR – Property Tax Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	20,012,577	19,794,741	21,187,982	19,884,644
Other Funds	4,457,102	8,020,395	8,522,677	8,332,079
Total	**24,469,679**	**27,815,136**	**29,710,659**	**28,216,723**
FTE	141.39	142.21	139.19	136.19

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.

Legislatively Adopted Budget

The legislatively adopted budget generally restores budget reductions imposed after the special election. It reflects positions phased out or eliminated during the interim. The budget takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. Three vacant positions (3.0 FTE) were eliminated.

DOR – Personal Tax and Compliance Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	32,382,499	34,821,720	42,103,882	20,374,177
Other Funds	1,462,580	1,620,612	2,051,481	25,979,020
Total	**33,845,079**	**36,442,332**	**44,155,363**	**46,353,197**
FTE	308.87	318.01	329.07	360.63

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 Legislature to enhance revenue collections.

As with other divisions, this Division's 2001-03 budget was reduced substantially because of reductions imposed by HB 5100. The Legislature restored most of that funding so that the Division could effectively carry out its tax compliance and enforcement efforts through the end of the 2001-03 biennium.

Legislatively Adopted Budget

The legislatively adopted budget provides for increased revenue collection capabilities. The increase in FTE in the Governor's budget is due to the transfer of the Tax Help Section from the Information Processing Division. The budget takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. Four vacant positions (4.0 FTE) were eliminated.

The Legislature approved a substantial revenue enhancement initiative proposed by the Department. The initiative is expected to improve General Fund tax collections by $20.2 million at a cost of $5.1 million. Included in the initiative are additional collection personnel, establishment of a branch office in Gresham, and positions to follow up on persons who should be filing and paying taxes but are not. The Division was provided an additional $4.8 million General Fund and 40 positions (35.56 FTE).

The Legislature also passed legislation enabling the Department to keep $30 million of Cigarette and Other Tobacco Taxes collected that exceed the June 30, 2003 revenue forecast. Of this, $4.8 million would be used by the Business Division for the cost of the additional collection efforts. The balance was used to offset $25.2 million General Fund originally approved for the Department; $24 million of the fund shift is accounted for in the Personal Tax and Compliance Division with the balance spread throughout other divisions' budgets.

DOR – Business Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	12,289,742	13,753,723	17,235,500	14,909,183
Other Funds	4,999,869	5,936,820	6,608,628	14,346,950
Total	**17,289,611**	**19,690,543**	**23,844,128**	**29,256,133**
FTE	159.36	170.65	178.03	190.91

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 Legislature has 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 Task 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. The Legislature restored most of that funding so that the Division could effectively carry out its tax compliance and enforcement efforts through the end of the 2001-03 biennium.

Legislatively Adopted Budget

The Legislature approved 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. The budget takes into account reductions imposed during the special sessions and includes adjustments for the statewide salary freeze, reduced costs of goods and services, reduced PERS employer contribution rates, and reduced government service charges. Two vacant positions (2.0 FTE) were eliminated.

The Legislature shifted $3 million General Fund for the Tobacco Task Force to Other Funds. Improved Cigarette and Other Tobacco Tax collections have resulted from Task Force activities and the Legislature decided to fund Task Force operations from these increased collections. Additionally, the Legislature provided 17 additional task force positions (14.88 FTE) and $4.8 million in Other Funds expenditure limitation for increased Task Force compliance activities. Many of the expected increased collections are due to new powers granted in HB 2368 to enforce tobacco tax collections on sales over the Internet and through other means.

DOR – Multistate Tax Commission

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Nonlimited	182,667	186,544	219,100	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.

Legislatively Adopted Budget

The legislatively adopted 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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	10,069,321	8,674,810	9,270,000	9,000,000
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.

Legislatively Adopted Budget

The legislatively adopted budget is the amount of benefits expected to be paid during the 2003-05 biennium. It is the same as originally provided for the 2001-03 biennium.

DOR – Senior Citizens' and Disabled Citizens' Property Tax Deferral

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

Legislatively Adopted Budget

The legislatively adopted 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 Approved	2003-05 Governor's Recommended *	2003-05 Legislatively Adopted
General Fund	13,046,851	12,641,681	11,235,665	10,276,857
Other Funds	23,939,404	29,136,787	32,932,700	31,286,191
Federal Funds	0	1	1	7,320,991
Nonlimited	42,641	166,678	172,328	172,328
Total	**37,028,896**	**41,945,147**	**44,340,694**	**49,056,367**
FTE	201.42	208.67	212.67	202.50

** 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 funded only 88.9% of the General Fund in the 2001-03 legislatively approved budget for the Secretary of State. The net effect was a $1.9 million reduction to the Secretary of State's General Fund budget request. The Governor's budget included 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. Federal Funds have been received under the Help America Vote Act to strengthen election activities statewide.

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 Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	1,209,544	1,842,216	983,394	324,176
Other Funds	0	344,600	396,509	951,385
Total	**1,209,544**	**2,186,816**	**1,379,903**	**1,275,561**
FTE	6.00	8.00	6.00	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 Legislature 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.

Legislatively Adopted Budget

The legislatively adopted budget for the Executive Office phased out funding for the Oregon Cultural Trust Board and established a separate Oregon Cultural Trust Division within the agency. Subsequent legislation passed by the 2003 Legislature (SB 931) transferred the staffing and management of the Board from the Secretary of State to the Economic and Community Development Department. The adopted budget also phased out General Fund for redistricting costs, and for an audit of the Deschutes County Juvenile Justice project. The Legislature reduced the budget for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. The Legislature also approved transfer of support from General Fund to Other Funds to better reflect the Secretary of State's revenue structure.

SOS – Archives Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	3,269,087	3,351,100	3,759,808	3,416,985
Other Funds	796,752	1,561,816	1,754,522	1,809,644
Federal Funds	0	1	1	1
Nonlimited	0	99,288	102,580	102,580
Total	**4,065,839**	**5,012,205**	**5,616,911**	**5,329,210**
FTE	21.92	23.17	23.17	22.00

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.

Legislatively Adopted Budget

The legislatively adopted budget for the Archives Division 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. The Legislature reduced the budget for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. Two vacant positions (1.17 FTE) were eliminated.

SOS – Audits Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	0	0	50,000
Other Funds	11,152,516	12,631,253	13,810,200	12,723,460
Total	**11,152,516**	**12,631,253**	**13,810,200**	**12,773,460**
FTE	78.00	78.00	78.00	76.00

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.

Legislatively Adopted Budget

The legislatively adopted budget reflects adjustments for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. Also, two vacant positions (2.0 FTE) were eliminated. The $50,000 General Fund is for the Division to contract for an audit of the Pharmacy Benefit Administrator of the Oregon Health Plan.

SOS – Business Services Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	500,164	576,977	615,498	319,614
Other Funds	1,446,642	1,923,341	2,103,517	2,182,259
Total	**1,946,806**	**2,500,318**	**2,719,015**	**2,501,873**
FTE	16.00	17.00	17.00	16.00

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.

Legislatively Adopted Budget

The legislatively adopted budget includes adjustments for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. Also, one vacant position (1.0 FTE) was eliminated. Additionally, the budget was reduced by $250,000 General Fund, which was offset by an increase in Other Funds expenditure limitation for the Division to use its Other Funds cash balance.

SOS – Corporations Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	6,440,626	6,500,162	6,983,297	6,485,172
FTE	44.50	42.50	42.50	40.50

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 Legislature, 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.

Legislatively Adopted Budget

The legislatively adopted budget reflects adjustments for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. Two vacant positions (2.0 FTE) were eliminated.

SOS – Elections Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	7,246,355	5,635,047	4,095,289	5,058,249
Federal Funds	0	0	0	7,320,990
Nonlimited	42,641	67,390	69,748	69,748
Total	**7,288,996**	**5,702,437**	**4,165,037**	**12,448,987**
FTE	15.00	15.00	16.00	15.00

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. The Division received $7.4 million Federal Funds to strengthen elections practices under the Help America Vote Act.

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 2002 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.

Legislatively Adopted Budget

The legislatively adopted budget includes adjustments for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. The Legislature did not approve a requested position. The budget includes a $1.5 million General Fund special purpose appropriation to the Emergency Board for the costs of a special election held in September 2003 authorizing the sale of pension bonds (HJR 18 and HB 2651). The Legislature also approved the expenditure of $7.3 million Federal Funds received under the Help America Vote Act to strengthen elections practices statewide.

The Secretary's proposed budget for 2003-05 contained a package to reduce the Election Division's resources by $1.8 million, based on roll-up of HB 5100 (2002 fifth special session) reductions. The reduction was understood to eliminate General Fund for the voters' pamphlet. At the same time, the Secretary pre-session filed SB 139 to provide for fee-based Other Funds to cover the Secretary's various elections functions and duties, including the voters' pamphlet. The Secretary's legislatively adopted budget incorporated the reduction package and provided Other Funds limitation for the Elections Division for the voters' pamphlet, subject to enactment of SB 139. Although adopted by the Senate in amended form, SB 139 did not reach a floor vote in the House. The net effect was no funding included in the adopted budget for costs associated with producing the state's voters' pamphlets.

SOS – Information Systems Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	755,576	1,146,090	1,679,160	1,057,112
Other Funds	3,832,960	5,842,315	6,945,733	6,226,628
Total	**4,588,536**	**6,988,405**	**8,624,893**	**7,283,740**
FTE	17.00	22.00	25.00	22.00

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.

Legislatively Adopted Budget

The legislatively adopted budget provides funding for a variety of technology projects and software maintenance. It includes adjustments for the statewide salary freeze, reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. The Legislature did not approve three requested positions due to budgetary constraints.

SOS – Personnel Resources Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	66,125	90,251	102,516	50,721
Other Funds	269,908	333,300	386,914	423,294
Total	**336,033**	**423,551**	**489,430**	**474,015**
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.

Legislatively Adopted Budget

The legislatively adopted budget reflects adjustments for reduced PERS employer contribution rates, reduced costs of goods and services, and reductions in government service charges. The Legislature reduced the General Fund by $50,000 and approved the use of the Division's existing Other Funds cash balance to offset the General Fund reduction.

SOS – Cultural Trust Division

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
Other Funds	0	0	552,008	484,349
FTE	0.00	0.00	2.00	2.00

Program Description

The 2001 Legislature 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.

Legislatively Adopted Budget

The legislatively adopted 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. It also includes adjustments for the statewide salary freeze, reduced costs of goods and services, and reductions in government service charges.

With the passage of SB 931, the Legislature approved the transfer of this function to the Arts Program of the Economic and Community Development Department (OECDD). The Secretary of State is to transfer personnel and funds to the Economic and Community Development Department early in the 2003-05 biennium. OECDD received Other Funds expenditure limitation and authorization to establish two permanent full-time positions.

Treasurer of State (Treasurer) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	101,136	272,291	0	0
Other Funds	16,020,959	18,609,143	19,895,846	18,486,357
Nonlimited	3,855,786	4,500,000	5,530,000	5,530,000
Total	**19,977,881**	23,381,434	**25,425,846**	**24,016,357**
FTE	76.38	78.25	78.00	74.60

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. Additionally, the Treasurer invests excess funds for local governments. The Treasurer is also responsible for administration of the Oregon Qualified Tuition Savings Program.

Treasurer – Treasury Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	0	10,195	0	0
Other Funds	16,020,959	18,436,856	19,500,840	17,108,145
Nonlimited	3,855,786	4,500,000	5,530,000	5,530,000
Total	**19,876,745**	**22,947,051**	**25,030,840**	**22,638,145**
FTE	76.00	77.00	76.00	72.60

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.

Legislatively Adopted Budget

The legislatively adopted budget makes no significant changes in Treasury Operations. It phased out the General Fund provided in 2001 for a statutory salary adjustment for the Treasurer of State. The original budget request reflected one less position that was eliminated as part of a reallocation of workload and job classifications. During budget hearings, the Treasurer proposed to eliminate three vacant positions (3.0 FTE) and reduce another position to part time by 0.4 FTE. The Treasurer also proposed a reallocation of costs between Treasury Operations and the Qualified Tuition Savings Program to better reflect the actual administrative costs of both programs. The Legislature adopted the Treasurer's proposals and made additional adjustments for the statewide salary freeze, reduced employer PERS contribution rates, and reduced costs of goods and services and government agency charges. The adjustments resulted in a reduction of $2.4 million Other Funds expenditure limitation from the original budget request and $1.3 million from the 2001-03 legislatively approved expenditure limitation. These savings were largely offset by the expected increase in Nonlimited Other Funds costs of banking service charges and investment service charges that are passed through directly to state agencies. However, in aggregate, state agencies' treasury costs will remain at about the same level as in the 2001-03 biennium.

Treasurer – Qualified Tuition Savings Program

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	101,136	262,096	0	0
Other Funds	0	172,287	395,006	1,378,212
Total	**101,136**	**434,383**	**395,006**	**1,378,212**
FTE	0.38	1.25	2.00	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 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 $500,000 annually from contract service providers 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 administrative costs. The Program expects to repay the General Fund advances ($263,000) 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.

Legislatively Adopted Budget

The legislatively adopted budget is commensurate with the Program's growth. It reflects reductions that were made for the statewide salary freeze, reduced employer PERS contribution rates, and reduced costs of goods and services and government agency charges. It 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. The budget also was increased in response to the Treasurer's proposed reallocation of overhead costs and to reflect additional marketing expenses.

Commission for Women – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	127,450	125,420	171,339	0
Other Funds	60,205	822,581	149,374	1,136,003
Federal Funds	1,400	0	0	0
Total	**189,055**	**948,001**	**320,713**	**1,136,003**
FTE	1.00	2.80	1.26	3.00

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 were 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. The Commission was projected to raise over $64,000 in donations and sales income in the 2001-03 biennium.

The viability of the Commission is being challenged by the state's General Fund revenue shortfall. During the 2003 session, the Legislature suspended General Fund support for commission expenses, effective April 1, 2003, as part of efforts to rebalance the state budget after the March 2003 Economic and Revenue Forecast projected a further decline in General Fund revenue. The Commission, however, has used its Other Funds to retain its Executive Director and continue operations. The 2001-03 legislatively approved budget included $14,200 General Fund to pay costs relating to the funding suspension, including unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support. These funds were not spent, however, because the Commission remained in operation.

Legislatively Adopted Budget

The legislatively adopted budget suspends General Fund support for the Commission for the 2003-05 biennium. The Governor's budget had included General Fund to support ongoing Commission costs. Funding cuts made to the agency's budget in the 2002 fifth special session and by allotment reduction had been restored in his budget. The Legislature shifted the $171,339 General Fund in the Governor's budget to Other Funds, and then applied adjustments to eliminate support for merit increases, cost of living adjustments, and inflation. The budget also includes adjustments to reflect revisions in state government service charge assessments. The Other Funds expenditure limitation was increased by $827,500, and two positions (1.74 FTE) were added, to allow for continued administration of the AmeriCorps Communities in Partnership to Stop Violence Against Women and Children grant, which was extended by the Federal government. The budget also includes one position (1.0 FTE) for the Commission to employ an Executive Director.

The source of Other Funds is to include the AmeriCorps grant, and other donations, grants, contract funds, and sales income. The Commission is working to raise funds to continue operations. It remains uncertain whether the Commission will be able to raise enough funds to operate for the entire biennium. The Legislature appropriated $22,000 General Fund to the Department of Administrative Services to pay ongoing costs relating to the shutdown of the advocacy commissions (i.e., Commission on Asian Affairs, Commission on Black Affairs, Commission on Hispanic Affairs, and Commission for Women). A portion of these funds may be used, if needed, to pay unemployment insurance benefits, vacation payoff, and other costs related to the elimination of General Fund support for the Commission for Women. Total shutdown-related costs for the four commissions may total as much as $75,000, and will primarily be a function of unemployment insurance benefit claims and of whether the Commission for Women suspends operations. If total shutdown-related costs exceed $22,000, the Department of Administrative Services may request an allocation from the Emergency Board to pay them.

Legislative Branch

Legislative Branch (LEG) – Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended*	2003-05 Legislatively Adopted
General Fund	53,634,283	55,385,445	55,604,555	56,618,512
Other Funds	2,581,907	5,794,261	3,612,914	3,310,305
Nonlimited	1,729,441	2,290,742	1,656,713	1,652,713
Total	**57,945,631**	**63,470,448**	**60,874,182**	**61,581,530**
FTE	416.69	417.63	422.38	394.47

** 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). The 2003-05 Governor's recommended budget, while making no specific recommendations, funded the Legislative Branch at approximately the 2001-03 legislatively approved budget amount. The net effect was an $18.8 million reduction to the Legislative Branch General Fund budget request. All of the reductions were taken from the Legislative Administration Committee budget. This reduction amount captured $12,140 in savings gained from elimination of four Legislative Administration positions (0.88 FTE) from the 2002 second special session; effectively eliminated $9.4 million in Legislative Branch policy packages (14 in Legislative Administration and 2 in Legislative Counsel); and then reduced the amount necessary for the Legislative Branch to continue all current activities in 2003-05 by $9.3 million, 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 Approved	2003-05 Agency Request	2003-05 Legislatively Adopted
General Fund	23,506,545	24,785,932	28,126,098	25,152,431
Other Funds	186,470	193,102	199,835	193,182
Nonlimited	90,623	86,789	89,827	86,789
Total	**23,783,638**	**25,065,823**	**28,415,760**	**25,432,402**
FTE	225.22	223.62	223.62	216.31

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 $3.6 million General Fund based on special session actions during the interim. Specifically, $2,008,260 was reduced 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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was reduced by an additional $75,248 based on a 5% reduction to the 2003 Session appropriation for each leadership office.

Legislatively Adopted Budget

The legislatively adopted General Fund budget funds the Legislative Assembly at 1.5% ($366,499) above the 2001-03 legislatively approved budget. The Legislature reduced the requested budget by approximately $3 million and 12 positions (7.31 FTE). Specifically, the Legislature reduced personal services expenses based on a plan to freeze member ($294,308) and employee ($298,327) salaries and Public Employees Retirement System reforms ($732,246); eliminated six policy analyst positions (6.0 FTE and $1,093,110); eliminated six vacant positions (1.31 FTE and $26,298); eliminated an inflationary allowance ($207,557); reduced funding for out-of state travel ($196,921) and temporary appointments ($109,060); and reduced Attorney General charge rates ($5,314) and Capitol Planning Commission, Secretary of State, and Department of Administrative Services assessment charges ($10,526). A portion of the General Fund savings from elimination of vacant positions was used to cover position reclassification costs in the House and Senate Floor Support Services, eliminating disparities for identical positions.

LEG – Legislative Administration Committee

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Agency Request*	2003-05 Legislatively Adopted
General Fund	19,680,572	19,146,811	32,840,850	19,390,674
Other Funds	2,214,027	4,964,598	1,948,509	1,949,674
Nonlimited	0	730,072	735,880	597,528
Total	**21,894,599**	**24,841,481**	**35,525,239**	**21,937,876**
FTE	118.97	118.51	123.26	107.39

** The Governor's budget included $14.1 million General Fund for the Legislative Administration Committee—a reduction of $18.8 million 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 ($9.3 million) plus the value of the policy option packages in the Legislative Administration and Legislative Counsel budgets ($9.1 million and $0.4 million 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 88% of LAC's adopted 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 has been 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 would have completed 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 included 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 planned to upgrade the infrastructure of the two wings of the Capitol.

Due to the increased risk of 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. The adopted budget established two new positions to monitor video coverage.

The agency's 2001-03 General Fund budget was reduced by $3.7 million 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 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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was decreased by an additional $359,573 with reductions for information systems improvements and support, debt service savings, vacancy savings and services and supplies expenditures.

Legislatively Adopted Budget

The legislatively adopted budget funds Legislative Administration at 1.3% ($243,863) above the 2001-03 legislatively approved budget. The adopted budget is also $13.4 million below the amount requested. The adopted budget eliminated $8.6 million in funding requested for 12 policy packages; provided limited funding for three policy packages ($461,808) necessary for on-going information system and facilities services expenses; eliminated funds for debt service ($1,707,328) on a wings remodel project; reduced personal services funding based on a plan to freeze employee salaries ($704,774) and Public Employees Retirement System reforms ($551,739); eliminated an inflationary allowance ($150,976); eliminated 20 vacant ($628,362) and two filled ($263,551) positions (10.99 FTE); shifted funding for one position from General Fund to Other Funds ($92,637); reduced a full-time maintenance position to part-time ($66,748); reduced funding for contractual services ($25,000), employee training ($200,000), media special programs ($107,498), and information system upgrades ($295,400); and reduced funding for Attorney General charges ($307) and Department of Administrative Services, Secretary of State, and Capitol Planning Commission assessments ($43,834).

The three policy packages that were partially approved are described below.

- $183,580 was approved for ongoing licensing and maintenance costs. The agency had requested $2,299,010 to replace existing mainframe system with graphical systems to complete the Technology Transition Project.

- $160,000 was approved for software upgrades and support. The agency had requested $329,382 to comply with software licensing requirements and cover fees for on-going software upgrades.
- $118,000 was approved to establish two positions (1.5 FTE) to monitor recently installed video coverage. The agency had requested $183,984 which would have provided funds to continue to utilize contract security guards.

The 12 policy packages that were not approved would have done the following:

- established 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);
- replaced an apprentice with a journeyman electrician to reduce reliance on contract services ($51,052);
- established one additional permanent Committee Services Administrative Support position (1.0 FTE) to replace a limited duration employee ($82,611);
- upgraded network software and improve systems infrastructure ($354,664);
- replaced computer room ceiling, fire suppression system, and air conditioning system and purchase network connection equipment necessary to complete the wings renovation project ($698,882);
- upgraded network security and disaster recovery systems ($492,000);
- established a session media assistant position (0.25 FTE), replace outdated video equipment, and purchase back-up equipment for critical systems ($375,520);
- replaced audio and video recording and archiving equipment ($456,000);
- purchased a new FAX server system, develop a public access measure tracking system, and develop a new electronic commerce application for Legislative Counsel ($316,225);
- developed a new chamber automation system, purchase and install wireless laptops for members, develop software applications, and provide technical assistance to members ($824,232);
- improved pedestrian and Capitol safety through improved crosswalks and vehicular barricades ($2.5 million); and
- replaced carpet in the Governor's second floor suite ($60,000 Other Funds).

LEG – Legislative Counsel Committee

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Agency Request*	2003-05 Legislatively Adopted
General Fund	5,428,515	5,879,051	7,155,520	6,286,407
Other Funds	179,174	630,775	724,288	1,161,663
Nonlimited	1,638,818	1,473,881	1,565,300	968,396
Total	**7,246,507**	**7,983,707**	**9,445,108**	**8,416,466**
FTE	47.50	50.50	50.50	45.77

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 $1.8 million. 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 million 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 was 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 LC 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 was 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 did not anticipate the need to request any additional staff for the 2003-05 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 plans to create and sell a competing product. Legislative Counsel attempted to reach a revenue neutral arrangement with the private vendor; however, attempts to date have not been successful. If Legislative Counsel is ultimately unable to reach such agreement, it may need to seek supplemental funding from the Emergency Board during the 2003-05 interim while it assesses other options for creating, annotating, indexing, publishing, and selling the only official version of ORS revisions each biennium.

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, which was $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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was reduced by an additional $60,000 for savings in services and supplies expenditures.

Legislatively Adopted Budget

The legislatively adopted budget funds the Legislative Counsel's office at 6.9% ($407,356) above the 2001-03 legislatively approved budget. The adopted budget eliminated $0.4 million General Fund requested for two policy packages; increased Other Funds by $116,982, so that revenue derived from charging agencies for bill drafting services could be used to cover the costs of providing the services; reduced personal services funding based on a plan to freeze employee salaries ($251,774) and Public Employees Retirement System reforms ($227,483); eliminated an inflationary allowance ($13,428); eliminated 10 vacant positions; and reduced funding for Department of Administrative Services, Secretary of State, and Capitol Planning Commission assessments ($3,802). Savings achieved from elimination of vacant positions were utilized to cover actual costs being incurred for filled positions that were not funded or classified as necessary. The adopted budget also shifted $595,943 Non-Limited Other Funds and 14 positions (5.33 FTE) to limited Other Funds.

LEG – Legislative Fiscal Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Agency Request	2003-05 Legislatively Adopted
General Fund	3,346,879	3,850,026	4,330,526	4,025,515
FTE	17.00	17.00	17.00	17.0

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, which was $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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was reduced by an additional $20,000 for savings in services and supplies expenditures.

Legislatively Adopted Budget

The legislatively adopted budget funds the office at 4.6% ($175,489) above the 2001-03 legislatively approved budget. The adopted budget reduced personal services funding based on a plan to freeze employee salaries ($144,010) and Public Employees Retirement System reforms ($149,350); eliminated an inflationary allowance ($10,420); and reduced funding for Department of Administrative Services, Secretary of State, and Capitol Planning Commission assessments ($1,231).

LEG – Legislative Revenue Office

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Agency Request	2003-05 Legislatively Adopted
General Fund	1,357,235	1,415,855	1,581,024	1,464,474
Total	**1,357,235**	**1,415,855**	**1,581,024**	**1,464,474**
FTE	6.00	6.00	6.00	6.0

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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was reduced by an additional $22,000 for savings in services and supplies expenditures, as well as an $8,000 reduction in funding for the Revenue Options, School Funding and Accountability Task Force.

Legislatively Adopted Budget

The legislatively adopted budget funds the office at 3.4% ($48,619) above the 2001-03 legislatively approved budget. The adopted budget reduced personal services funding based on a plan to freeze employee salaries ($59,506) and Public Employees Retirement System reforms ($54,264); eliminated an inflationary allowance ($2,120); and reduced funding for Department of Administrative Services, Secretary of State, and Capitol Planning Commission assessments ($660). House Joint Resolution 42 requires the Legislative Revenue Office to provide staff support to a Joint Interim Committee on Tax Reform. No funds were specifically appropriated for expenses incurred for this activity, however, $35,000 General Fund is reserved within the general purpose appropriation to the Emergency Board. It may be necessary for the agency to seek supplemental funding, especially if member per diem and mileage expenses are not covered by the budget adopted for the Legislative Assembly.

LEG – Commission on Indian Services

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Agency Request	2003-05 Legislatively Adopted
General Fund	314,537	307,770	359,257	299,011
Other Funds	2,236	5,786	5,989	5,786
Total	**316,773**	**313,556**	**365,246**	**304,797**
FTE	2.00	2.00	2.00	2.0

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 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. In 2002, it solicited, reviewed, and distributed reports from 30 state agencies on interactions with Tribes. 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, which was $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.

During the 2003 legislative session, the agency's 2001-03 General Fund budget was reduced by an additional $9,000 based on vacancy savings.

Legislatively Adopted Budget

The legislatively adopted budget funds the Commission at 2.9% ($8,759) below the 2001-03 legislatively approved budget. The adopted budget reduced personal services funding due to the employee pay freeze and a recent retirement ($43,022) and Public Employees Retirement System reforms ($10,801); eliminated an inflationary allowance ($1,297); and reduced funding for Department of Administrative Services, Secretary of State, and Capitol Planning Commission assessments ($312).

JUDICIAL BRANCH

Council on Court Procedures – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	87,469	83,136	103,396	0
Other Funds	8,000	8,000	8,000	8,000
Total	**95,469**	**91,136**	**111,396**	**8,000**
FTE	0.71	0.71	0.71	0.0

Program Description

The Council on Court Procedures is responsible for reviewing and amending the Oregon Rules of Civil Procedure. 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 adopt changes as needed. At the beginning of each legislative session, the Council submits the report on adopted rule changes to the Legislative Assembly. Unless the Legislature acts to modify the rules, adopted changes take effect on January 1 of the following even year.

Revenue Sources and Relationships

The General Fund has been 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 was staffed by a 0.21 FTE Executive Director and a 0.5 FTE Executive Assistant. In addition to staffing costs, the budget had provided 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 was able to absorb the across-the-board reduction with savings accrued from using a temporary employee as the Executive Assistant. In April 2003, the operations of the Council were suspended pending further statewide budget balancing decisions.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget eliminates all General Fund support for this agency. In lieu of suspending operations, Council members and the current executive director have agreed to staff the Council on a volunteer basis. The Oregon State Bar will continue to provide funding to reimburse members for their travel expenses, and the University of Oregon has agreed to continue providing office space and minimal support for supplies.

Oregon Judicial Department (OJD) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended	2003-05 Legislatively Adopted
General Fund	219,156,597	226,333,703	298,377,126	250,670,922
Other Funds	7,272,046	20,062,964	22,756,426	30,367,366
Federal Funds	599,100	2,105,926	1,556,977	2,333,247
Nonlimited	0	0	5,949,864	5,949,864
Total	**227,027,743**	**248,502,593**	**328,640,393**	**289,321,399**
FTE	1749.02	1746.17	1965.66	1836.83

The Indigent Defense program is responsible for providing legal counsel to indigent persons at the trial court level. This program, which was part of the Judicial Department, was transferred to the Public Defense Services Commission on July 1, 2003. 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, was transferred to the Public Defense Services Commission on July 1, 2003.

Revenue Sources and Relationships

The 2003 Legislature, in HB 2759, created a temporary 30% surcharge on filing fees for the circuit and appellate courts; established the Judicial Department Operating Account and continuously appropriated funds in the Account to the Department for operating expenses; established and increased various court fees; increased the maximum fines for felonies, misdemeanors, and violations; increased the unitary assessment; and increased the base fine and reduced judicial discretion to waive the base fee. The 30% surcharge is expected to generate $6.6 million in revenue that is used to offset General Fund operating expenses. Beginning July 1, 2005, the surcharge is repealed and filing fees are increased by 10% and accrue to the General Fund.

HB 2759 is expected to generate over $27 million in additional revenue for the biennium. This revenue is in addition to the $178.3 million in fines, forfeitures, filing fees, and indigent defense partial payments projected to be collected in the 2003-05 biennium. OJD will retain approximately 8% of these revenues 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); fees from the 30% surcharge approved in HB 2759 ($6.6 million); fees from the dispute resolution surcharge for mediation and arbitration activities ($0.8 million); grants from the Department of Human Services for the Citizen Review Board ($0.7 million); and various grants from other state agencies ($1.3 million). Federal Funds of $2.4 million support assessments of state foster care and adoption laws and judicial processes ($0.4 million) and drug courts in Marion, Malheur, and Benton counties ($2.0 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. To manage the reductions, the agency took one-time

actions to delay filling vacant positions and reduce programs and services, including the elimination of court services on Fridays.
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 2002 third special 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 the 2003-05 biennium.

The Department had several budget notes for 2001-03, including direction to work with the Public Defense Services Commission to prepare for the transition of indigent defense services; reports on collections and integration of criminal justice information; and development of a staffing plan not directly tied to new judicial positions.

Legislatively Adopted Budget

The Legislature approved a budget of $289.3 million total funds and 1,836.83 full-time equivalent positions (FTE) for the Oregon Judicial Department. The budget includes reductions in inflation, assessment rates, and compensation, and $4.95 million in services and supplies and unspecified savings. It also includes the elimination of 5.86 vacant positions. The budget has an increase of $2.1 million in Federal and Other Funds and 7.2 FTE from a variety of grants, including family and drug court services. The total budget is increased by 7.7% above the Governor's budget of $268.5 million total funds, and by 232.36 FTE (14.5%) above the Governor's budget staffing level of 1,604.47 FTE. However, the legislatively adopted budget is 12% below the Chief Justice's recommended budget of $328.6 million total funds and is 6.6% below the Chief Justice's recommended staffing level of 1,965.66 FTE.

The Department has several budget notes for 2003-05, including requests to:
- report on the use of pro tem judges;
- report on a plan to improve automated accounting;
- report on person-based access to court information;
- develop and report on performance standards for the trial courts and central administration, including reporting on individual trial court and administrative unit performance; and
- develop an intergovernmental agreement and report on the application contribution program that provides Other Funds support for indigent defense eligibility verification.

The Department is requested to report its 2003-05 budget in the categories of Appellate Courts, Administration and Support Services, Trial Courts and Mandated Payments. The Department will distribute the 2003-05 Legislatively Adopted Budget into these categories when it has completed reconciliation of the 2003-05 budget. The Department is also requested to prepare its 2005-07 budget in those categories, including providing for General Fund appropriations at that level of detail.

If the temporary graduated income tax assessments adopted by the Kegislature as part of HB 2152 are rescinded through a referral, then $13,015,940 (which is the agency share of $544.6 million) will be disappropriated from Judicial Department operations. The Chief Justice will be responsible for determining how the General Fund disappropriation will be allocated among the Judicial Department programs. The Judicial Department is exempt from the Executive Branch allotment process and will not be subject to allotment reductions if the statewide disappropriation amount of $544.6 million is insufficient to balance the budget.

OJD – Appellate and Administration

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended	2003-05 Legislatively Adopted
General Fund	49,616,018	52,508,469	72,422,341	54,216,238
Other Funds	5,901,373	9,879,371	9,514,935	16,703,496
Federal Funds	272,183	677,737	306,977	374,836
Nonlimited	0	0	5,699,864	5,699,864
Total	**55,789,574**	**63,065,577**	**87,944,117**	**76,994,434**

FTE	281.93	280.09	315.81	290.83

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 Division had 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.

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), fees from the 30% civil filing fee surcharge approved in HB 2759 ($6.6 million), fees from the dispute resolution surcharge for court mediation and arbitration services ($116,200) 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.

Legislatively Adopted Budget

The Legislature adopted a budget of $76,994,434 and 290.83 FTE for Appellate and Administration. The budget is reduced by $1,938,088 General Fund and $250,509 Other Funds for inflation, merit increases, Attorney General rate, and Department of Administrative Services charges, and a reduction of $495,528 from PERS and Secretary of State Audits Division assessment reductions. Other General Fund adjustments include fund shifts of $6.6 million and $116, 200 to Other Funds as a result of the filing fee surcharge offset and the transfer of court related alternative dispute resolution functions onto the dispute resolution filing fee surcharge. In addition, five positions (2.66 FTE) were eliminated after a review of all vacant positions in Appellate and Administration. The budget includes $909,011 Other Funds, $67,859 Federal Funds, and 5.70 FTE for several anticipated grant awards.

OJD – Trial Court Operations

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended	2003-05 Legislatively Adopted
General Fund	160,887,324	161,518,557	210,480,998	184,344,015
Other Funds	1,370,673	10,183,593	13,241,491	13,663,870
Federal Funds	326,917	1,428,189	1,250,000	1,958,411
Total	**162,584,914**	**173,130,339**	**224,972,489**	**199,966,296**
FTE	1467.09	1453.08	1632.28	1528.43

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. This backlog has been eliminated. Federal grant revenue is also included for drug courts in Marion, Malheur, and Benton counties ($1.25 million). Other Funds revenue includes fees from the dispute resolution surcharge for court mediation and arbitration services.

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%. Other Funds revenue includes $0.7 million from the dispute resolution surcharge for court mediation and arbitration services.

There is increasing need to use technology for case management to increase productivity of limited support staff. Increased flexibility is also 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 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.

Legislatively Adopted Budget

The Legislature approved a budget of $199,966,296 and 1,528.43 FTE for Trial Court Operations. Adjustments include a reduction of $1,966,076 General Fund and $217,094 Other Funds for inflation, merit increases, and cost-of-living expenses. Other General Fund adjustments include a fund shift of $683,800 to Other Funds as a result of the transfer of court related alternative dispute resolution functions onto the dispute resolution filing fee surcharge, and a reduction of $735,026 from PERS and Secretary of State Audits Division assessment reductions. In addition, the approved budget includes $390,000 Other Funds, $725,897 Federal Funds and 1.50 FTE for several anticipated grant awards. Seven positions (3.20 FTE) were eliminated from Trial Court Operations after a review of all vacant positions.

OJD – Mandated Payments

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Chief Justice Recommended	2003-05 Legislatively Adopted
General Fund	8,653,255	12,306,677	15,473,787	12,110,669
Nonlimited	0	0	250,000	250,000
Total	**8,653,255**	**12,306,677**	**15,723,787**	**12,360,669**
FTE	0.00	13.00	17.57	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. The 2001 Legislature deferred implementation of these changes for six months, to enable OJD to provide jury services within the adopted budget. In the 2002 second special 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. 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.

Legislatively Adopted Budget

The Legislature approved a budget of $12,110,669 General Fund, $250,000 Non-limited Other Funds, and 17.57 FTE for Mandated Payments. The budget is reduced $207,247 General Fund for inflation, merit, and cost-of-living increases. Other General Fund adjustments include a reduction of $62,737 from PERS rate reductions.

Commission on Judicial Fitness and Disability – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	181,816	185,580	209,654	161,762
FTE	0.75	0.75	0.75	0.5

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 with the 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 reductions had a minimal effect on services.

Legislatively Adopted Budget

The 2003-05 legislatively adopted budget (LAB) reduces General Fund support for the agency by 12.8% from the prior biennium and eliminated the Administrative Specialist position (0.25 FTE). The LAB also eliminates the inflation factor for most services and supplies line-items and projected increases for employee merit increases scheduled to occur after July 1, 2003, and reduces the Public Employees Retirement System contribution to 14.6% from 20.3% of salaries. The Commission may need to request funding from the Emergency Board if there are extraordinary expenses associated with investigation and prosecution of cases.

Public Defense Services Commission (PDSC) – Agency Totals

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation	2003-05 Legislatively Adopted
General Fund	146,850,208	151,737,761	182,776,408	168,333,318
Other Funds	55,430	1,002,588	1,147,263	1,107,063
Total	**146,905,638**	**152,740,349**	**183,923,671**	**169,440,381**
FTE	61.21	62.02	62.02	58.45

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 July 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 consolidation of the Indigent Defense Account and Administration from the Judicial Department, and the existing Office of Public Defense Services, within the Public Defense Services Commission. The organizational structure has been revised to include three sections: Public Defense Direct Services, which provides appellate representation; Public Defense Contract Services, primarily trial representation; and Public Defense Administration, which includes contract and business administration.

Budget Environment

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 program was then housed in the Judicial Department, which 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. At its January 2003 meeting, the Emergency Board allocated $5 million from the Emergency Fund to partially restore the 2002third special session reductions. Even with the Emergency Fund restoration of $5 million, the Judicial Department ceased funding for the majority of misdemeanor and probation violation cases by early March 2003. This resulted in a bulge of cases being deferred into the 2003-05 biennium.

The Judicial Branch budget recommended $161,168 for salary parity with the Department of Justice for its appellate attorneys, and $10 million for compensation adjustments for investigators, hourly rate paid attorneys and public defense contractors. This will continue to be an ongoing issue for the Commission, as compensation for contractors has not been adjusted in a decade. The Commission will also continue to deal with issues related to caseload and cost management.

Legislatively Adopted Budget

The Legislature approved a budget of $169.4 million total funds for the Public Defense Services Commission, which includes a $7 million special purpose appropriation to the Emergency Board for public defense caseload growth. This level of funding is $3 million below the 2001-03 legislatively adopted close-of-session budget, but is equivalent to the level of General Fund support requested by the Governor. However, the budget is $14.5 million (8%) below the level of funding recommended by the Judicial Branch.

Reductions include inflation and pay adjustments, the elimination of 5 vacant positions, and the elimination of adjustments for any caseload growth and provider compensation increases. Other adjustments reflect a revised transfer date of July 1, 2003 for the Judicial Department public defense program to the Commission (from the original date of October 1, 2003), and the cost of representation for defendants whose cases were deferred into the 2003-05 biennium due to funding constraints in the 2001-03 biennium. This estimated cost was used as the basis for the special purpose appropriation.

Budget notes direct the Commission to report on:

- Workload, including deferred cases; PDSC can request release of the special purpose appropriation based on this workload report.

- The application contribution program, including an intergovernmental agreement with the Judicial Department to expand the indigent defense verification program with revenues from these contributions.

If the temporary graduated income tax assessments adopted by the Legislature, as part of HB 2152, are rescinded through a referral, then $9,911,720 (which is the agency share of $544.6 million) will be disappropriated from Public Defense Services Commission operations. The agency will be responsible for determining how the General Fund disappropriation will be allocated between the appellate and trial court programs. However, this reduction will affect the availability of legal representation of indigents, which could result in the dismissal of some cases. The Judicial Branch is exempt from the Executive Branch allotment process and will not be subject to allotment reductions, if the statewide disappropriation amount of $544.6 million is insufficient to balance the budget.

PDSC – Public Defense Direct Services
(formerly Office of Public Defense Services)

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation	2003-05 Legislatively Adopted
General Fund	5,757,599	5,854,598	7,288,894	5,071,836
Other Funds	4,089	0	0	0
Total	**5,761,688**	**5,854,598**	**7,288,894**	**5,071,836**
FTE	41.00	40.20	40.20	40.20

Program Description
The Public Defense Direct Services program is currently responsible for providing legal representation on criminal matters for indigent persons at the appellate court level. The Commission will restructure the program, and anticipates using the expertise of its legal staff for both appellate and complex trial work.

Revenue Sources and Relationships
The General Fund supports the program. The Office of the Public Defender 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 financing 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.

Legislatively Adopted Budget
The Legislature approved a budget of $5.1 million General Fund. Reductions of $1,053,456 taken during the 2002 fifth special session were restored, in order to meet constitutional mandates for appellate defense services. Technical adjustments include reductions for the salary freeze, elimination of services and supplies inflation, lower Department of Administrative Services assessments, and reduced PERS and Secretary of State Audits Division charges.

PDSC – Public Defense Contract Services
(formerly Indigent Defense Account, Oregon Judicial Department)

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation	2003-05 Legislatively Adopted
General Fund	139,599,793	144,121,905	173,414,999	160,694,576
FTE	0.00	0.00	0.00	0.00

Program Description
The Public Defense Contract Services program pays the cost of legal representation for indigent persons at trial, and for persons who are entitled to state paid legal 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. Both the U.S. and Oregon Constitutions guarantee the right to legal representation, at state expense, to indigent persons facing criminal prosecutions. This program also is responsible for the costs of all transcripts and the cost of appellate legal representation for cases not represented by Public Defense Direct Services.

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.

Revenue Sources and Relationships
The General Fund supports the program.

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%. However, caseload growth between fiscal years 1999 and 2000 was actually 7.2%. Because of the restrictions on appointments during the 2001-03 biennium, more current caseload data is not available. However, raw caseload projections do not take into account the increasing complexity of cases arising from new laws and ballot measures.

The Commission is committed to work with contractors to implement cost and quality control.

Legislatively Adopted Budget
The Legislature approved a budget of $153.7 million General Fund for the Public Defense Contract Services Program. This appropriation, combined with the $7 million special purpose appropriation to the Emergency Fund for caseload growth, provides a total budget of $160.7 million.

PDSC – Public Defense Administration
(formerly Indigent Defense Services Division, Oregon Judicial Department)

	1999-2001 Actual	2001-03 Legislatively Approved	2003-05 Judicial Branch Recommendation	2003-05 Legislatively Adopted
General Fund	1,492,816	1,761,258	2,072,515	2,566,906
Other Funds	51,341	1,002,588	1,147,263	1,107,063
Total	**1,544,157**	**2,763,846**	**3,219,778**	**3,673,969**
FTE	20.21	21.82	21.82	18.25

Program Description
The Public Defense Administration program is responsible for administering the public defense contracts that provide legal representation for indigent persons, and for processing requests and payments for non-contract fees and expenses.

Budget Environment
This program administers 90 contracts, receives and verifies invoices for payment on contractual services, and issues over 20,000 payments per year.

The program will receive $1.1 million in the 2003-05 biennium from an application fee ($20) and a contribution amount that is paid by defendants seeking representation at state expense. The fees are used to offset the General Fund cost of indigent defense verification staff in the Judicial Department and for operating expenses for indigent defense administration. The Commission will enter into an intergovernmental agreement with the Judicial Department regarding use of these fees for indigent defense verification staffing.

Legislatively Adopted Budget

The Legislature approved a budget of $2.6 million General Fund, $1.1 million Other Funds, and 18.25 FTE. Adjustments included reductions for the salary freeze, elimination of services and supplies inflation, lower Department of Administrative Services assessments, and reduced PERS and Secretary of State Audits Division charges.

EMERGENCY FUND

Emergency Fund – Totals*

	1999-01 Actual	2001-03 Legislatively Approved	2003-05 Governor's Recommended	2003-05 Legislatively Adopted
General Fund	81,900,000	98,300,000	48,397,962	49,000,000
FTE	0.00	0.00	0.00	0.00

** 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 (salaries and benefits) when an appropriation is made for this purpose. Appropriations are also made to the Board for allocation to specific agencies for specific purposes. This is done in lieu of a direct appropriation to an agency when additional information is required or conditions need to be met prior to making the funds available. The following table separately identifies components within the Emergency Fund:

	1999-01 Approved	2001-03 Adopted	2001-03 Approved	2003-05 Adopted
General Purpose Emergency Fund	41,900,000	40,000,000	21,000,000	40,000,000
Salary & Benefit Adjustment	40,000,000	100,000,000	77,300,000	9,000,000
Special Purpose Appropriations	64,267,351	85,860,033	34,085,281	47,442,994
Total	146,167,351	225,860,033	132,385,281	96,442,994

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 resulting in a disappropriation of $19 million from the general purpose Emergency Fund and $22.7 million of the amount set aside for employee negotiated salary and benefit increases. Additional disappropriations were made during the special sessions from unspent special purpose appropriations to agencies.

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. The Legislature adopted a general salary freeze for the 2003-05 biennium and reduced agency budgets to reflect no employee merit increases and no cost-of-living adjustments. The $9 million special purpose appropriation for salary and benefit adjustments in the 2003-05 adopted budget reflects approximately one-half of the estimated General Fund cost to state agencies of negotiated health benefits. Actual costs above the amounts appropriated were absorbed within agency budgets, primarily through forced position vacancies and under-realized caseload growth.

Legislatively Adopted Budget

The legislatively adopted budget includes a $40 million general purpose Emergency Fund. Since the adopted budget assumes no salary increases and funds approximately one-half of the estimated costs of negotiated health benefit costs, a special purpose appropriation of $9 million is provided to the Emergency Board. The Department of Administrative Services (DAS) is expected to develop a plan for the distribution of these funds based on the negotiated benefit needs for the 2003-05 biennium. DAS will present the plan to the Emergency Board for approval. The plan will also include agency requests for related Other Funds and Federal Funds expenditure limitation adjustments for health benefit costs.

Within the $40 million general purpose Emergency Fund, the Legislature established two reservations totaling slightly over $7 million:

- $7 million for the Department of Education for potential maintenance of effort issues in special education programs; and
- $35,000 for the Legislative Revenue Officer for expenses related to the Joint Interim Committee on Tax Reform.

In addition to the general purpose and employee benefit appropriations to the Emergency Board, the Legislature also established various special purpose appropriations for specific agency uses in HB 5077 and in agency budget bills. These special purpose appropriations are described in more detail in the analysis of individual agency budgets.

Special Purpose Appropriations to the Emergency Board

Agency	Amount	Purpose
Dept. of Community Colleges & Workforce Dev.	$10,700,000	Community College Support Fund for revised distribution formula
Dept. of Human Services	8,000,000	State medical assistance program
Public Defense Services Comm.	7,000,000	Indigent defense contract services workload growth
Dept. of Education	6,500,000	Early Intervention/Early Childhood Special Education caseload growth
Dept. of Human Services	6,317,994	Community program costs on universal access to services plan (Staley)
Dept. of Forestry	5,700,000	Emergency Forest Fire Protection
Secretary of State	1,500,000	Special election costs (pension bonds - HB 2651/HJR 18)
Dept. of Education	1,000,000	Student assessment system
Dept. of Land Conservation and Development	375,000	Costs related to work plan reporting
Dept. of Education	300,000	Operations costs related to work plan reporting
Columbia River Gorge Comm.	50,000	Operations costs related to work plan reporting

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